Annual Report 2012

Blue Water Bridge Canada

Canada

Table of Contents

Letter from the President and Chief Executive Officer 3

Letter from the Chairman of the Board 4

Board of Directors 5

Background, Legislative Authority and Compliance 6

Major Trade Routes 7

Management Discussion and Analysis:

Factors Affecting Operations 8

Operating Results 11

Controllable Overhead and Treasury Board's Cost Containment Guidelines 15

Investment and Capital Spending 16

Sources of Capital 16

Standard and Poors' Bond Rating 17

Liquidity and Cash Flows 18

Current Issues and Future Outlook 19

Performance against Strategic Objectives 20

General Strategies 21

Managing Our Risks 26

Critical Accounting Policies and Future Policy Changes 29

Internal Controls 29

Financial Statements and Notes to Financial Statements 30

Annual Report 2012
Letter from the President and Chief Executive Officer

It takes much more than the Blue Water Bridge's massive steel and concrete structure to continuously provide our customers with a safe, efficient and enjoyable crossing. At any one time, a multitude of people are performing a variety of interrelated functions, so that we can meet our obligations as the owner and operator of the Canadian side of the international bridge. Particularly now, much is in the works, which makes it an exciting time for us at Blue Water Bridge Canada (BWBC). Some undertakings have been years in the making and are just now taking their final shapes. Others are still at the formative stage, being developed to enhance the quality and scope of our services in the future.

During the past year, BWBC, our bridge co-owner at the Michigan Department of Transportation (MDOT) and U.S. Homeland Security/Customs and Border Protection achieved a new level of partnership, resulting in the cooperative construction of six new primary inspection booths on the American side of the bridge. The novel staggered and stacked configurations of the booths make the most of available plaza space, offering the increased capacity to accommodate an additional 240 cars per hour – good news for travellers through our toll booths. Initial traffic measures show that the new booths have helped to reduce westbound crossing wait times substantially, by 50-55 percent compared to the same period in 2011. The project is a testament to the great potential of our "one bridge" philosophy, which centres on improving service quality and increasing our efficiency and cost-effectiveness by working more closely with MDOT. Our one bridge mindset has also led to a joint bridge inspection protocol and shared snow removal operations. We are pursuing other measures, including cooperative maintenance work, equipment sharing and purchasing and capital development planning. Ultimately, the initiative will help us to improve and sustain the delivery of our services in the long-term interests of our customers and our government partners on both sides of the border.

It has been more than a year since we had the Honourable Steven Fletcher, Minister of State (Transport) and Patricia Davidson, MP, Sarnia-Lambton, officially open our Blue Water Bridge Corporate Centre. The business office/inbound commercial vehicle inspection complex, which incorporates a comprehensive system of sustainable development technology, has modernized our workplace, and that of our government agency and private sector tenants. As importantly, it forms a solid cornerstone for future bridge plaza development. Through our next phase of capital development planning, just beginning, we will extend our full support to Canadian and U.S. agencies working to improve and streamline the border under the Perimeter Vision Accord announced in 2011 by Prime Minister Harper and President Obama. Complementing our bridge improvements, provincial and state infrastructure reconstruction projects linking our approach plazas to Hwy 402 to our east and Interstate 69/94 to our west are expected to be completed this fall. Trusted traveller program members and other bridge users, as well as local commuters, will benefit greatly from the ultramodern connections between the provincial and state highway networks and our international crossing.

With the North American economy still in a slow recovery, we are progressively pursuing new and better ways of working more efficiently and cost-effectively. We are careful to follow a course that is consistent with our long-term vision of service excellence, while also aligning ourselves with the Government of Canada's priorities. BWBC and other federal agencies are challenged to look for better ways of fulfilling their public mandates through smaller organizations and less overhead. Our employee development program is a complementary undertaking to better position ourselves for the future challenges and opportunities. Introduced internally in early 2012, the program will help us to develop a multi-skilled and adaptable workforce, engaging our employees in further skills development and a more enriched job experience. It follows our successful negotiations with the Public Service Alliance of Canada, Local 501, which resulted in the ratification of a new four-year collective agreement. Also, it is consistent with the employee empowerment philosophy that backs our workplace continuous improvement initiative.

As the past year has shown, we are applying new and better methods to work more proficiently within our dynamic border business environment. At the same time, our vision remains firmly focused on being recognized by our customers as an essential part of their travel experience.

Annual Report 2012
Message from the Chairman

Our business environment today in the wake of the global recession is substantially different than what it was just a few short years ago. The lingering after-effects of the wide-spread, economic meltdown continue to press on us at Blue Water Bridge Canada. In response, we are driven to pursue new and more cost-effective approaches to meeting our public mandate to provide safe and reliable border crossing services. Appointed just recently, my learning curve has been steep. All the same, I have felt compelled to give a further sense of urgency to our mission. The demands of sustaining a critical, yet ever-aging infrastructure and planning for next-generation plaza services, while relying solely on toll fee revenues from lower traffic volumes, warrant an ever sharper focus on the road ahead. We need to develop innovative and more cost-efficient services, in order to continue to meet the needs and expectations of our cross-border customers, our Government of Canada partner and our host communities. Despite the very real constraints of persistently sluggish Canadian and U.S. economies, the board of directors sees that there is still much for us to do, to ensure that our highly regarded organization and services remain on solid footing, today and well into the future.

Our board is most appreciative of BWBC's leadership and employees for their willingness to move progressively along a post-recession route that many economists openly admit is largely uncharted. In addition, I gratefully acknowledge the contributions and dedication of my predecessor, Ken James, whose leadership helped to establish, among many other aspects, the vision and mission that continue to provide us with solid route markers. Following such guides, our employees have accepted the board's challenge of achieving our strategic goals, a key one being to operate under a more streamlined, one-bridge model. The goal requires that we work more closely and creatively with the owner of the U.S. side of our bridge, the Michigan Department of Transportation, to eliminate duplication and to share each other's expertise and resources. Both co-owners are already gaining cost and time savings, as well as an improved level of customer service. Combined with our Employee Development Program, which was launched earlier this past year and continues to be developed, the initiative is expected to have a progressively positive and transformative effect on our organization. With employees being given greater opportunities to become better skilled and more versatile in their day-to-day activities, we anticipate a more self-directed and multi-skilled workforce, operating within a flatter organization. Recent undertakings delivered in concert with our U.S. partners have ranged from the construction of six new primary inspection lane booths on the U.S. plaza to the contracting of professional engineering expertise to conduct our annual bridge inspection. The successes achieved to date suggest that the interests of the travelling public and invested governments might actually be better served over the long term by a single bridge authority, overseen by a board of directors appointed by the two owners.

Introducing new technologies, particularly involving the modernization of our tolling system, is another of our strategic goals of great interest to the board. As in many other aspects of their lives, our customers would gain additional conveniences and time savings with access to further tolling and highway infrastructure technologies. Based on our preliminary investigations of modern pass card tolling systems, the board recognizes that the benefits are real and achievable. Offering substantive operational, fiscal and customer service benefits, such improvements should be implemented in a timely fashion. We need to be sure that the Blue Water Bridge remains as a full and active participant in the efforts of the Canadian and U.S. governments to encourage the efficient movement of goods, services and people across the border. We gladly accept our role in helping to transform the spirit of the *Beyond the Border Accord*, signed in late 2011 by Prime Minister Harper and President Obama, into innovative, on-the-ground services that will exclude terrorists and criminals, while lifting the barriers that hinder legitimate cross-border trade and travel.

Since joining Blue Water Bridge Canada, I have conducted numerous open discussions with our board directors, managers and supervisors and have surveyed all employees about their views of our course forward and the opportunities present for further improvement. I am enthused by the potential of our "bridge family" and by the collective desire to contribute. I have also been assured that, if we act decisively from a base of sound reason, we will achieve the high levels of operational performance and customer satisfaction that we are striving for. I look forward to testing and proving that assertion in the upcoming year.

Board of Directors

Marcel Beaubien
Chairman of the Board
Developer, builder, manager, small commercial complexes
Former MPP, Province of Ontario
Former Mayor, Town of Petrolia
Former County Councillor, Lambton County

Ann Gray
Director, former Vice-Chair of the Board
Freelance Lambton County law clerk
Member, Ontario Association of Professional Searchers of Records
Board Member & Treasurer, Fraternal Fellowship Association
Former Chair, Board of Managers, St. Giles Presbyterian Church

Cathy Newman, BAccS, CGA
Raw Material and Packaging Inventory Planner, Nova Chemicals
Former Chair, Sarnia Lambton Chapter, Certified General Accountants Association of Ontario
Past Chair, Program Advisory Committee, Lambton College

Corporate Governance

BWBC is guided by a Board of four members appointed by the Governor in Council. During the entire fiscal year 2011-2012 the Board has had only 3 directors serving with 1 vacant position. The Board does not receive remuneration but is entitled to be reimbursed for travel, living and other necessary expenses incurred by them in the performance of the duties of BWBC under the Bridge Authority Act. The Minister of Transport, Infrastructure and Communities will recommend the nominee(s) to the Governor-in-Council for final approval and appointment, traditionally for a term of up to 3 years. As a parent Crown corporation, BWBC is accountable to Parliament through the Minister of Transport, Infrastructure and Communities. The Board members are knowledgeable individuals from the local community who are sensitive to BWBC's business needs. They understand the *Financial Administration Act* (FAA) requirements for Corporate Plans and Annual Reports and they work earnestly with management to ensure that BWBC's financial obligations are met within the guidelines of our mandate.

The Board takes an active role in the stewardship of the overall future direction in addition to addressing internal and external issues currently affecting Blue Water Bridge Canada. A chartered accounting firm, acting as the internal auditor, reports directly to the Audit Committee. Governance issues and practices continue to evolve and the Board strives to improve its due diligence and governance processes throughout the year. Board members regularly attend annual governance and stewardship sessions to keep up-to-date on the various issues.

Background, Legislative Authority and Compliance

Blue Water Bridge Canada (BWBC) was created by a 1964 Act of Parliament (*Blue Water Bridge Authority Act)* where *"it is deemed appropriate that an international bridge providing facilities for the carriage of highway traffic between Canada and the United States be operated on a joint international basis by a public authority having equal representation of members appointed from each of the two countries, and having power to levy tolls to meet the costs of operating and maintaining such a bridge"*. At that time, in anticipation of such a merger to occur sometime in the future, the Canadian legislation initially established a corporation to be known as the Blue Water Bridge Authority to own (under federal control), operate and maintain the Canadian half of the highway toll bridge over the St. Clair River between Point Edward, Ontario and Port Huron Michigan. Similar legislation exists with the State of Michigan authorizing the American "Authority" to operate in the same way.

In accordance with the provisions of a 1928 Special Act of Parliament authorizing construction and operation of the Blue Water Bridge, ownership of the Canadian portion reverted, at no cost or expense, to the Federal Government from the State of Michigan in 1962. The Michigan Department of Transportation (MDOT) owns, operates and maintains the U.S. half of the bridge.

BWBC qualifies as a "parent Crown corporation" under the *Financial Administration Act* and regulations. As such, BWBC is required to submit an annual corporate plan outlining its business activities and investments, set BWBC's objectives for the relevant period and the strategy to achieve such objectives. The *Financial Administration Act* (Canada) also requires that BWBC prepare and file annual operating and capital budgets, each of which require the approval of the Treasury Board on the recommendation of the Minister of Transport, Infrastructure and Communities. BWBC is obliged to prepare annual reports including audited financial statements for submission to Parliament via the Minister of Transport, Infrastructure and Communities.

The *Blue Water Bridge Authority Act*, and the *Customs Act*, section 6, require BWBC to provide, equip and maintain free of charge adequate buildings or other facilities for the proper interviewing, examination and detention of persons and goods by customs officers.

BWBC has taken active measures to ensure compliance with the *Official Languages Act* and continues to implement its obligations with the Treasury Board of Canada Secretariat to ensure compliance with the *Federal Identity Program*. As part of that compliance, The President of the Treasury Board and the Minister of Transport, Infrastructure and Communities agreed on an applied title for the organization – from Blue Water Bridge Authority to Blue Water Bridge Canada – effective September 2007. We have received confirmation from the Canada Public Service Agency that we have been successfully meeting our official languages obligations.

BWBC has operational relationships with: Ontario provincial authorities and particularly with the Ministry of Transportation; the Ontario Provincial Police, and; local municipalities, in particular Point Edward, Ontario upon which the bridge's Canadian assets are sited.

Pursuant to the *Blue Water Bridge Authority Act*, BWBC is limited to charging tolls which provide for current revenues in an amount sufficient to pay BWBC's reasonable current costs; to establish prudent reserve funds; to provide or replenish sinking funds in respect of outstanding bonds, and; to pay other expenses properly incurred by BWBC in its performance of duties under the Act. The *Canada Transportation Act* regulates the means of setting and publishing toll rates.

Major Trade Routes

The Bridge is a major commercial traffic access point to the south-central United States. The Bridge connects Highway 402 in Ontario to I-94 and I-69 in Michigan, which provides southerly access to the following metropolitan areas: Detroit, Michigan; Indianapolis, Indiana; Madison, Wisconsin; Minneapolis, Minnesota, and; St. Louis, Missouri, covering the Gulf Coast Corridor and extending down through Florida.

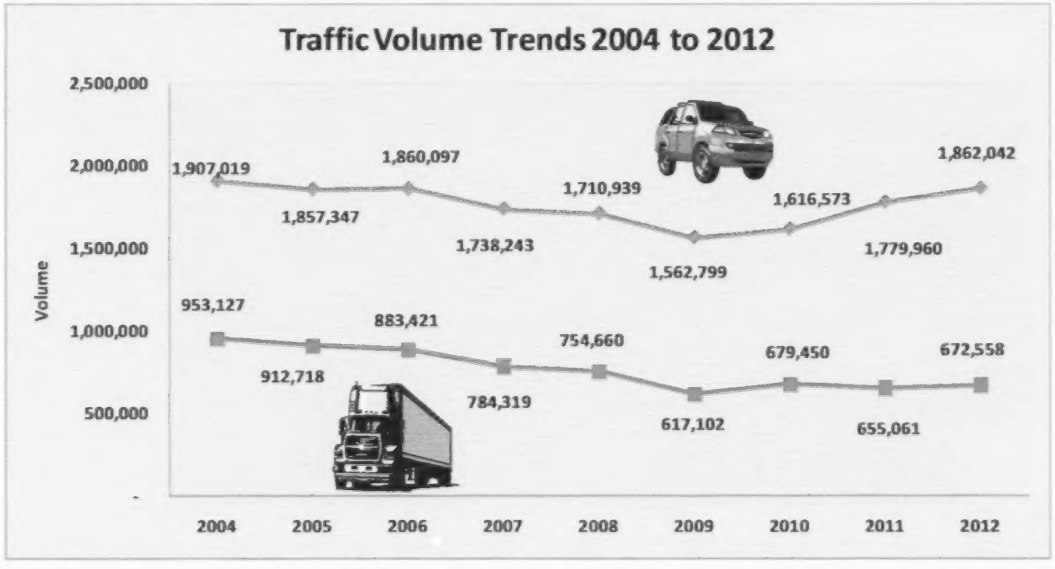
MANAGEMENT DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Factors Affecting Operations

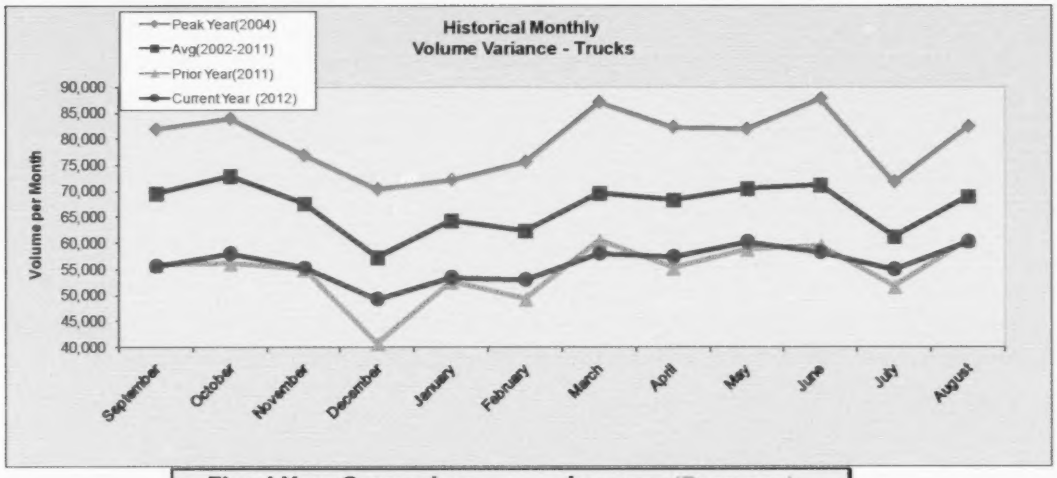
BWBC exists as a self-funded and self-sustaining toll revenue agency legislated to maintain and improve the facilities for its travelers and tenants. It differs from most toll road corporations because it is located at an international border, subjected to the increased security concerns of its neighbour the United States. The increase in security has resulted in the "thickening" of the border with the resulting increased likelihood of traffic congestion and traveler inconvenience.

BWBC commits its financial resources towards reinvesting 100% of its revenues and debt financing into the infrastructure of its plaza complex and surrounding perimeter. BWBC also commits a significant part of its human resources towards the general strategies (to be discussed later in this report) such as the Government Relations Program, Customer Service Program, Community Relations Program, Employee Management Program and Cost Management Strategy – all meant to encourage people and trucking companies to cross at this border and to mitigate the concerns of Customs and Immigration agencies in both countries so that traffic can traverse efficiently without affecting the security concerns of either country.

Historically, since becoming a parent Crown corporation in 2002, traffic volume peaked in fiscal 2004 and has been in decline every year since, except for fiscal 2010 and then, for fiscal 2011 car volume increased significantly but truck traffic declined. For fiscal year 2012, both truck and car traffic increased over the previous year.

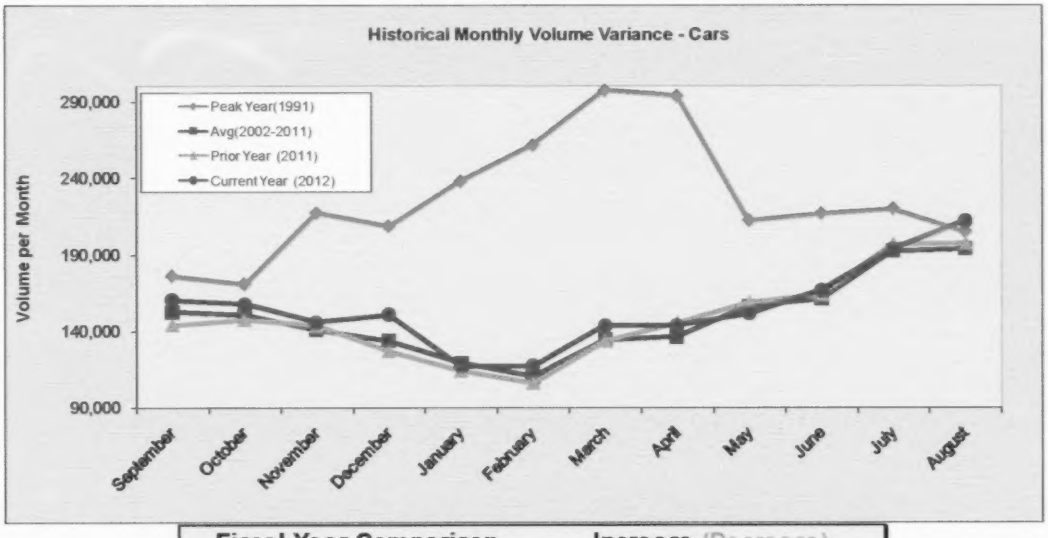


While technically the recession from 2009 is over, the economic recovery has been relatively slow. This is reflected in the relatively flat trend for truck volumes from fiscal years 2010 through to 2012. In fact, volumes have been significantly down from our peak year of 2004



Fiscal Year Comparison		Increase (Decrease)	
Peak	953,127	(280,569)	(29.44%)
10-Year Avg.	802,613	(130,055)	(16.20%)
Prior Year	655,061	17,497	2.67%
Current Year	672,558		

and fiscal year 2012 is still well below the previous 10-year average by 130,055. Truck revenue represents approximately 70% of our toll revenue and at an average truck toll rate of $18.22 (2011 - $17.35). This translates into approximately $2.4 million foregone annually.



Fiscal Year Comparison		Increase (Decrease)	
Peak	2,717,503	(855,461)	(31.48%)
10-Year Avg.	1,781,497	80,545	4.52%
Prior Year	1,779,960	82,082	4.61%
Current Year	1,862,042		

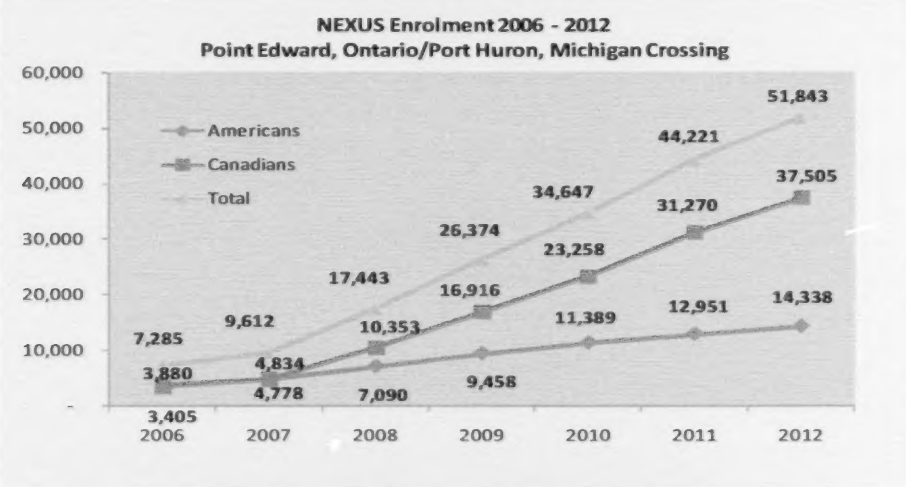
While a Canadian dollar at par value with the American dollar encourages the volume of Canadian travellers to increase, the strengthening of the Canadian dollar dampens the actual cash (ie. the conversion of U.S. cash received into Canadian) we receive from the Americans. Our corporate plan sets the exchange rate applied to USD toll revenue at par with the American dollar.

In fiscal 2012, due to the strengthening of Canadian dollar being approximately at par or above that of the U.S. dollar, Canadians have been taking advantage of the cross-border shopping and vacation opportunities and Canadian car traffic has significantly increased over the prior year by a healthy 4.6%. Month-to-month volumes showed consistent increases for 9 of the 12 months over the same periods of the prior year. Car volumes are now 80,545 higher than the 10-year average and at an average toll rate of $2.98 (2011 - $2.76) this translates into approximately $240 thousand additional income received annually. Thus, car volumes have structurally recovered from the recession and it is likely that with the additional investment of the stacked and staggered booths constructed on the American plaza with BWBC funds, continued increases in car traffic are anticipated.

Of particular interest is the result achieved in August 2012 wherein the car traffic volume exceeded the peak year 2004 August volume by 7,198 vehicles. Positive traffic trends for both cars and trucks are continuing into the 1st quarter of fiscal 2013.

With the Canadian dollar at a sustained par value level with the American dollar, BWBC has encouraged and promoted the potential of even greater car volume crossing the bridge span into the United States with its contribution to MDOT for the construction of the stacked and staggered booths on the American plaza. This has had a significant effect on the reduction of traffic congestion and its frequency of occurrence during the peak months of July and August 2012. Public perception of anticipating frequent inconvenience has appeared to be on the wane as more and more cars are crossing the border.

BWBC has actively marketed and has had great success promoting the international NEXUS program for individual citizens. Although the annual percentage increases for NEXUS appears to be waning, the prolonged strength of the Canadian dollar still encourages a double-digit increase up to and including fiscal 2012 and this has also increased the use of prepaid tokens over the prior year.



Annual Percentage Increase Nexus Enrolment					
2007	2008	2009	2010	2011	2012
31.94%	81.47%	51.20%	31.37%	27.63%	17.24%

This NEXUS program has helped to mitigate the traffic congestion over the years. If it had not been initiated, BWBC would have experienced an even steeper decline in vehicular traffic over the past seven years. Many travelers would not have bothered to cross due to the increased security measures implemented which exacerbated the frequency of long traffic lineups and their fear of being stuck on the bridge spans for inordinate amounts of time.

During 2011 NEXUS hours were extended by CBSA to expand/adjust the Canadian NEXUS hours of operations which were originally set in 2002. Canadians have embraced this program more than Americans. Canadians represent 72.3% of total NEXUS enrolment at the Point Edward/Port Huron border. In 2012, there was an increase in Canadian enrolment by 19.9% and in American enrolment by 10.7%.

Operating Results

Summary Review of Results:
(in thousands of dollars)

FINANCIAL RESULTS	2012	Corp Plan	2011
	$	$	$
Revenues	22,002	20,481	20,393
Operating Expenses	26,447	24,601	21,872
Excess of Revenues over Expenses	(4,445)	(4,120)	(1,479)
Excess of Revenues over Expenses/Revenues	(20.2%)	(20.1%)	(7.3%)

Revenues were more than expected and higher than prior year primarily due to an increase in both truck and car traffic coupled with a full toll rate adjustment for cars in October 2011 and trucks in January 2012. Commercial rent was essentially as predicted but more than the prior year due to the commercial brokers relocating to the new BWBCC building and occupying more square footage. Other revenue was more than expected and increased over the prior year due to the additional income earned from the currency exchange operations and only partially offset by the decrease in investment income as investments were redeemed to finance the capital projects.

Expenses were higher than corporate plan due to the contribution to MDOT for the construction of the stacked and staggered booths; the required maintenance repairs on the bridge spans and increased utilities for the new building; higher human resource costs with the ratification of the new collective agreement and the provision of fulltime benefits for part-time employees in exchange for an increase in the average weekly hours worked; additional staffing requirements to handle increased traffic and to maintain the new BWBCC building as well as providing resources for the implementation of the Employee Development Plan. The increases in these costs were only partially offset by depreciation being lower than previously anticipated.

Period over Period Comparisons
Years ended August 31, 2012 and 2011
(in thousands of dollars)

REVENUE	2012	2011	Increase (Decrease)	
	$	$	$	%
Tolls	17,730	16,313	1,417	8.7%
Rental	2,552	2,455	97	4.0%
Currency Exchange	1,356	1,206	150	12.4%
Interest Income	313	401	(88)	(21.9%)
Sundry	37	18	19	105.6%
Gain on Disposal of PPE	14	-	14	100.0%
Total Revenue	22,002	20,393	1,609	7.9%

Toll Revenue increased by $1,417 or 8.7%. Car volumes increased by 82,082 vehicles and truck volumes increased by 17,497 plus there was a full toll rate adjustment implemented for the cars in October 2011 and for the trucks in January 2012 ($1,573 increase). This was only partially offset by the strengthening of the Canadian dollar on USD cash holdings ($156 decrease).

Rental Revenue increased by $97 due to the relocation of the commercial brokers to the new BWBCC building and the leasing of an increased amount of square footage to them ($60 increase). The duty free rental revenue increased by $39 due to an increase in gross sales and its' positive effect on the variable rent.

Currency Exchange Revenue increased by $150 primarily due to the fluctuating exchange rate on existing USD cash balances ($110 increase) and the increase in ATM machine fees ($37 increase).

Interest Income decreased due to the redemption of investments to finance the capital projects which were completed during fiscal 2011 and 2012.

EXPENSES	2012	2011	Increase (Decrease)	
	$	$	$	%
Depreciation	8,564	7,449	1,115	15.0%
Interest	6,109	5,334	775	14.5%
Human Resources	6,025	5,202	823	15.8%
Maintenance	2,267	1,623	644	39.7%
General and administrative	1,782	2,264	(482)	(21.3%)
Contribution to MDOT	1,700	-	1,700	100.0%
	26,447	21,872	4,575	20.9%

Depreciation is higher due to the full year depreciation applied to the $70 million BWBCC building (formerly the CBA Complex capital project) and to the effect of IFRS requirements for depreciation on all of the capital assets.
Interest Expense would normally have been lower but for the full year utilization of a line of credit which was drawn down in July 2011 ($473 increase) and a 2011 IFRS adjustment ($504 increase) partially offset by a decrease in bond interest ($350 decrease).

Human Resources is higher due to the ratification of the collective agreement wherein the part-time employees were provided with fulltime benefits ($97 increase) and affecting the employee future benefits accrual ($348 increase) in exchange for increasing their average weekly hours from a maximum of 30 hours to 36 hours ($73 increase). Two additional positions were created in administration to implement the EDP ($229 increase). Five and a half additional summer student positions over the prior year were used to cover vacations ($46 increase) and provide additional help with maintenance duties. There was a PST rebate differential between 2012 and 2011 ($67 increase) for group health benefits. The new collective agreement increased wages by 1.50% ($46 increase) and non-union employees were awarded an average of 3.48% in salary increases ($58 increase). There was an elimination of one senior management position partially offset by the capitalization of benefits from the capital projects group ($95 increase).

Maintenance is higher due to abutment repairs on bridge span 1 ($481 increase) and deck repairs to bridge span 2 ($180 increase). Construction refunds and rebates were received from Bluewater Power in 2011 ($295 increase) partially offset by less power used in 2012 ($155 decrease). An environmental spill settlement was received in 2011 ($51 increase). This is partially offset by the 2011 toll lane restoration ($77 decrease), the cheaper bridge inspections done in 2012 ($103 decrease) and the effect of a milder 2012 winter on snow removal costs ($20 decrease).

General and Administrative expenses are lower due to consultant fees for HST/GST recovery in 2011 ($369 decrease), and other 2011 consultant services not used in 2012 ($116 decrease).

Corporate Plan Comparison
(in thousands of dollars)

REVENUE	2012	Corp Plan	Increase (Decrease)	
	$	$	$	%
Tolls	17,730	16,373	1,357	8.3%
Rental	2,552	2,562	(10)	(0.4%)
Currency Exchange	1,356	1,242	114	9.2%
Interest Income	313	289	24	8.3%
Sundry	37	15	22	146.7%
Gain on Disposal of PPE	14	-	14	100.0%
Total Revenue	22,002	20,481	1,521	7.4%

Toll Revenue was more than expected by $1,357 or 8.3%. Truck traffic increased by 75,128 or 12.6% more than forecast and car volume was 111,377 or 6.4% more than the corporate plan ($1,509 increase). The Canadian dollar was stronger than anticipated which had a dampening effect on United States dollar cash holdings ($156 decrease).

Rental Revenue received was relatively close to the corporate plan.

Currency Exchange Revenue was higher primarily as a result of retail buy/sell activity to customers ($62 increase); the full year usage of two ATM machines bringing additional business and ATM fees ($37 increase), and; the foreign exchange gain on the cash holdings ($15 increase). *Interest Income* increased more than corporate plan by $24 due to higher than predicted cash and unrestricted investment holdings ($10.5 million vs. $2.9 million).

Sundry Income was higher than expected due to additional advertising revenue received ($19 increase).

EXPENSES	2012	Corp Plan	Increase (Decrease)	
	$	$	$	%
Depreciation	8,564	9,104	(540)	(5.9%)
Interest	6,109	6,148	(39)	(0.6%)
Human Resources	6,025	5,171	854	16.5%
Maintenance	2,267	2,606	(339)	(13.0%)
General and administrative	1,782	1,572	210	13.4%
Contribution to MDOT	1,700	-	1,700	100.0%
	26,447	24,601	1,846	7.5%

Depreciation expense was an estimate taking into consideration the full year utilization of the BWBCC building and the opening IFRS adjustments initially made by PricewaterhouseCoopers. The 2012 expense came in $540 lower due to further IFRS adjustments made by year end.

Human Resources is higher due to the ratification of the collective agreement wherein the part-time employees were provided with fulltime benefits ($97 increase) and affecting the employee future benefits accrual ($374 increase) in exchange for increasing their average weekly hours from a maximum of 30 hours to 36 hours ($73 increase). Two additional positions were created in administration to implement the EDP ($229 increase). Five and a half additional summer student positions over the prior year were used to cover vacations ($46 increase) and to provide additional help with maintenance duties.

General and Administrative is higher due to additional legal costs for employee investigations, collective bargaining, section 6 and additional credit facility arrangements ($88 increase); Bond agency fees related to new IFRS guidelines ($65 increase); additional training for maintenance programs related to the new BWBCC building and additional infrastructure and currency exchange compliance ($44 increase); additional internal audits ($47 increase); Stationary included additional leases for currency exchange in the TIC building and for the currency exchange department ATM machines ($22 increase); office supplies included the maintenance manuals for the new BWBCC building ($15 increase), and; uniforms ($17 increase). Partially offset by a reduction in spending in the areas of meetings, travel, entertainment, consultants and public relations ($80 decrease).

Maintenance is lower due to the deferral of bridge span 1 paving and plaza paving ($1,339 decrease) and, cheaper bridge inspections ($70 decrease). Sooner than anticipated abutment and deck repairs ($661 increase); landscaping and additional shop and janitorial supplies related to the new BWBCC building and additional infrastructure ($193 increase) as well as higher utility costs ($239 increase).

Controllable Overhead and Treasury Board's Cost Containment Guidelines

In order to properly assess cost containment it is necessary to derive from the total expenses on the income statement, the "controllable" costs that can be managed by BWBC.

In accordance with Treasury Board's 2010 directive, operating budgets were to be frozen at their fiscal 2011 levels and for the following two fiscal years (2012 and 2013). BWBC's corporate plan for 2011-2015 and 2012-2016 were essentially in compliance with that directive. However, when the actual results for the past two fiscal years are compared to the baseline corporate plan for cost containment, BWBC's costs have increased.

Audit Trail to Controllable Overhead	**Corp Plan 2010-2011**	**Actual 2010-2011**	**Actual 2011-2012**
Total Expenses per Income Statement	**20,312**	**21,872**	**26,447**
Reverse:			
Depreciation	(6,495)	(7,449)	(8,564)
Interest Expense	(5,845)	(5,334)	(6,109)
Employee Benefits Expense	(395)	(438)	(788)
Municipal Taxes - Admin	(296)	(315)	(235)
Bridge & Plaza Maintenance	(215)	(318)	(842)
Controllable Overhead	**7,066**	**8,018**	**9,909**
Human Resources	4,813	4,764	5,237
General & Administration	1,261	1,949	1,547
Maintenance (excluding Bridge/Plaza)	992	1,305	1,425
Contribution to MDOT	-	-	1,700
Controllable Overhead	**7,066**	**8,018**	**9,909**

Human Resources:
In 2011-2012 with the ratification of the new collective agreement, 18 part-time employees were provided with fulltime benefits in exchange for increasing their average weekly hours from a maximum of 30 hours to 36 hours. Two additional positions were created in administration to implement the EDP and two new janitorial positions were created to service the new BWBCC building.

General and Administration:
In 2010-2011 most of the increase was due to the consultant fee for the HST/PST recovery and the use of legal services related to negotiations of the collective agreement, the section 6 judicial ruling, ancillary revenue study and facilitation services. 2011-2012 experienced a decrease due to less consulting services used, in particular for HST//PST recovery.

Maintenance:
In 2010-2011 utilities increased due to the additional BWBCC building and infrastructure, higher bridge inspection costs, paving, pump house rehabilitation, additional landscaping requirements and shop supplies. This was partially offset by less maintenance required for the other buildings and a civil settlement received related to a 2008 environmental spill. In 2011-2012, costs increased further due to less rebates received from Bluewater Power partially offset by less power used in 2012.

Investment and Capital Spending

BWBC's primary focus for fiscal 2012 has been to complete the additions to the BWBCC building which was operational by May 2011 and to finish the Bridge Span 2 project that had originally started within the federal government's Economic Action Plan initiative through the Gateways and Border Crossing Fund.

A brief description and cost status of the most significant capital projects for which costs were expended in 2011-2012 is listed below:

Bridge Span 2 Infrastructure & Systems Upgrade

{Budget $7.7M covering years 2009-2012}

Relocated and enhanced the electrical and communication equipment that used to experience several system failures to the existing infrastructure and installed a new electrical distribution system for the plaza. The electrical component included a plan to relocate the existing bridge electrical system from the existing Administration Building to under Span 2. The plan also included an emergency backup generator and new feeders to the adjacent buildings.

BWBCC Building

{Final Cost $70.6 M covering years 2008-2012}

By May 2011, the centerpiece and cornerstone of our capital master plan, the Customs Brokers Administration (CBA) Complex building, renamed the Blue Water Bridge Corporate Centre (BWBCC), was substantially completed and by the end of June all the tenants moved into the facilities. This building fulfills the most up-to-date Statement of Requirements of the Canada Border Services Agency (CBSA) and the Canada Food Inspection Agency (CFIA). It also accommodates the commercial brokers and the administration of BWBC in a building that will be an accredited Leadership in Energy and Environmental Design (LEED) structure; visually impressive with its size and "blue water" theme to the local community and to the travelers crossing the bridge spans.

Sources of Capital

In July 2002 BWBC issued at a face value of $110 million, 6.41% private placement revenue bonds. Principal and interest are payable semi-annually and the bonds are due July 2027. The proceeds from the bond issue were used to refinance existing debt from the construction of a second bridge span and rehabilitation of the original bridge span plus to establish the Debt Service Reserve Fund and the Operating Maintenance and Contingency Reserve Fund as part of the debt covenant arrangements.

The remaining cash and investments at the end of 2002 totaled approximately $50 million and were applied along with some of the cash generated from operations from 2003 to 2011 on the projects identified in the master capital plan. By 2011, almost all of our non-reserve investments matured and were redeemed. During 2012, one investment matured and was redeemed at almost $950 thousand from the non-restricted reserve funds, leaving only one more investment to mature by June 2014.

The bond issue agreement requires that BWBC abides by the Toll Rate Covenant whereby BWBC will take all lawful measures to fix and establish toll rates and other charges such that the Gross Debt Service Coverage Ratio is equal to or greater than 1.25 with respect to each Fiscal Year and that the projected Debt Service Ratio is equal to or greater than 1.00 with respect to each Fiscal Year. As at August 31, 2012, the Gross Debt Service Coverage Ratio is 3.94 (2011-4.33) and the Debt Service Ratio is 1.20 (2011-1.42).

It was also necessary to draw down $15 million from one of our credit facilities to finance the additional federal infrastructure projects; pay for the final costs remaining on the $70.6 million BWBCC building (formerly the CBA Complex project), and; have enough cash available to finance two capital projects in the Fall 2011. This line of credit has taken the form of a fixed rate loan, with four fixed rate, variable maturity term tranches, with an aggregated, average interest rate of 3.66%. Principal and interest payments are made monthly and the loan is being amortized over 25 years, effectively to be paid in its entirety by July 2036.

Last September 2011, BWBC increased toll rates by $0.25 effective October 1st, 2011 for cars and $0.25 per axle on January 1st, 2012 for trucks. Another full toll rate adjustment of $0.25 has been publicly announced in October 2012 to be implemented January 2013. This was done to help improve our bond covenant coverage ratios and to mitigate potential operational cash shortages due to the timing of invoices and the semi-annual principal and interest payments on the bond issue.

Standard & Poors' Bond Rating:

Standard & Poors' revalues its bond rating on a yearly basis. As at August 31, 2012 the rating was "A-".

In the past, S&P has noted the following credit strengths of BWBC:

- A substantial ability to set toll rates which, unlike other rated bridge authorities within Canada, BWBC need only publish a notice of a toll rate increase at least 20 days before the effective date.
- A strategic location and service area with 93% of Ontario's exports going to the United States, BWBC is the second-busiest border crossing in Ontario for commercial vehicles. Plus, encroachment risk is low with the delay in final approval for the Detroit River International Crossing.
- BWBC has significantly reduced capital expenditures over the next two years following the significant capital investment prior to 2012.

S&P has also noted the following credit concerns:

- A narrow revenue stream that is sensitive to economic conditions. BWBC's revenue stream is associated with a single tolled asset, where commercial traffic accounts for about 70%-75% of total revenues. Travel had declined significantly through the recession, illustrating a demand profile heavily influenced by the economy. Furthermore, heightened border security and more rigorous clearance processes, such as passport requirements for vehicular traffic entering the U.S., have dampened passenger traffic and, to a lesser extent, commercial trade; and

- A weak financial risk profile. Significant decreases in traffic, particularly for commercial vehicle traffic during the economic downturn, have negatively affected toll revenues. This has affected the company's debt service coverage levels and, more generally, its financial risk profile. At fiscal year-end 2012 (Aug. 31), BWBC's debt service coverage ratio (DSCR), including principal and interest decreased to 1.20 (2011 – 1.42).

Liquidity and Cash Flows:

With almost $8.0 million in cash at the beginning of the fiscal year, $4.7 million in cash was generated from operations during the year, $1.8 million was generated from receivables, $1.7 million was received for federal infrastructure projects from the federal government, $1.0 million in investments were redeemed, and $0.6 million generated from an increase in payables. This was partially offset by the purchase of $4.6 million in capital projects, the pay down of $3.3 million in bond principal payments and $0.4 million in bank debt. Receivables decreased primarily due to the $0.8 million HST/GST claim received from the federal infrastructure projects. Approximately $9.3 million remained in cash balances at the end of the year.

Summarized Cash Flow Statement *(excluding foreign exchange losses)*	Current Year Fiscal 2012	Prior Year Fiscal 2011
Cash Generated from Operations	4,678	6,622
Net Decr. (Incr) Receivables & Prepaids	1,826	(788)
Funds received from federal government	1,684	5,908
Net Redemption of Investments	950	9,088
Net (Decr.) Incr. Payables & Deferred Revenue	616	(6,798)
Proceeds on Disposal of Property	37	-
Purchase of Property, plant and equipment, Investment property and Intangible assets	(4,596)	(30,905)
Cash repayment of bonds payable	(3,290)	(3,089)
Cash proceeds from bank loan	-	15,000
Cash repayment of bank loan	(375)	(30)
Changes in Restricted Investments	(189)	(468)
Borrowing costs as part of capital assets	(14)	(513)
Increase (Decrease) in Cash	1,327	(5,973)
Cash Position, beginning balance	7,988	13,961
Cash Position, ending balance	9,315	7,988

Although our current working capital position looks healthy and that the corporate plan shows that available cash will grow steadily through to 2017, current assets are projected to be less than current liabilities up until fiscal year 2014-2015. It should be noted that the future projections (Corporate Plan 2013-2017) for capital spending have been purposely conservative at approximately $2.4 million per year until such time as BWBC completes its comprehensive strategic review and revises its master capital plan in the Fall and Winter of 2012/2013. Deferral of capital projects and major maintenance repairs is possible to ensure that our debt financing responsibilities are met.

Cash generated from operations over the past 15 years, the bond proceeds and the 2011 drawdown on the credit facility have financed the construction of not only our major construction projects identified through the master capital plan but also other capital expenditures (ie. software systems, trucks, plaza improvements, etc...)

Over the next 5 years (2013-2017), the existing cash and investment balances, in tandem with continued, expected positive cash generated from operations, will partially finance the planned

capital projects, with the remaining costs of planned capital projects to be covered by a long-term capital loan and other financing if required.

As a federal parent Crown corporation, we generate profits specifically for the purpose of maintaining the bridge spans, plaza and facilities and to fully fund other capital projects. As such, over the long-term, 100% of all cash generated and invested will be fully spent to fulfill our federal mandate.

Due to increased overhead costs as a result of the new BWBCC building, customer demand/volume and the employee development program, management has struggled to maintain its "controllable" costs in 2012 to Treasury Board's Cost Containment Guidelines. As a result, the BWBC Board of Directors has approved a full 25-cent toll adjustment for both January 2013 and will consider another 25-cent full toll adjustment for January 2014.

To date, we have been exercising our option of transferring funds from our non-restricted major maintenance fund (MMF). There remains $0.9 million in MMF. There are no plans to redeem the remaining investment but rather to commence building up the reserve commencing in 2014-2015. Historically, construction schedules have been stretched out and traffic volumes have usually come in higher than expected (2012 being a prime example), resulting in better than expected cash flows.

Current Issues and Future Outlook:

Section 6 of the *Customs Act*

BWBC's obligation under subsection 6(1) of the *Customs Act* is to provide "adequate buildings, accommodation or other facilities for the proper detention and examination of imported goods and the proper search of persons by customs officers." Over the years we have been providing additional services for which we have not received compensation such as maintenance, snow removal, janitorial and other miscellaneous day-to-day services.

In coordination with the Public Border Operators Association (PBOA), BWBC has communicated with CBSA to seek their cooperation in obtaining a judicial ruling which will definitively allocate costs and liabilities pursuant to Section 6 of the *Customs Act*.

The Legislation has been amended within the omnibus budget bill being presented to Parliament in the Fall 2012 which clarifies "for the purposes of subsection (1), 'maintain' means, in addition to performing general maintenance, paying all costs related to the operation of the buildings, accommodation and other facilities, including electricity, lighting, ventilation, heating, cooling, water supply, sewage treatment, fire protection, snow removal and cleaning." Thus, BWBC does not intend to pursue this matter any further.

Master Capital Plan Review Update

As Phase 1 of the Master Capital Plan is now essentially complete, it is prudent that management plans to re-think its long term capital plans. Such plans such as the harmonization of the toll systems on both sides of the border and an east-west plaza service centre to better serve the travelling public are priorities. Coordination and involvement with MDOT to develop such plans will reduce or prevent overlap or duplication of capital assets on either side of the border.

Fiscal 2011/2012 Strategic Objectives

2011/2012 Goals			
2011-2012 OBJECTIVES	**PERFORMANCE TARGETS**	**MEASUREMENTS**	**Status**
Compliance with Budget 2010 Cost Containment Measures	Operating Costs to be maintained at 2010-11 Corporate Plan Levels set (April 2010) for 2012 and 2013	**Expense levels; variance analysis**	**Costs increased; refer to page 15**
Establish a Revised Master Capital Plan Strategy 2012-2016	Identification of major capital projects by Fall 2011	**Formal Report** **Action Plan**	**Deferred to Q3, FY 2012-2013**
Develop Employee Management Program	From the employee survey, develop recommendations and action plans to improve the workplace environment	**# of recommendations** **# of action plans** **# of completions**	**Deferred to Q1 2014**

Fiscal 2012/2013 Strategic Objectives

2012/2013 Goals			
2012-2013 OBJECTIVES	**PERFORMANCE TARGETS**	**MEASUREMENTS**	**Status**
Modernize the bridge tolling method and system	Create plans with timelines by 2013. Work with the Michigan Department of Transportation (MDOT) to harmonize the toll system as appropriate.	**Draft RFQ for new toll system Feb 2013;** **Approval of successful vendor April 2013;** **Installation October 2013**	
Develop an east/west-bound local service centre	Update Master Capital Plan and identify timelines for implementation by Q3 2013	**RFQ November 2012** **Selection of engineering vendor January 2013**	
Create a "one-bridge" operating model	Work with MDOT to harmonize bridge operating and maintenance procedures to create operational efficiencies	**Development of a reciprocal agreement to share snow plowing, pavement repairs, etc.**	
Search for additional revenue streams	Identification of possible new ventures and new sources of revenue	**Development of 2 new revenue sources**	

Implementation of the Employee Development Program	Develop a workforce of multi-skilled and engaged employees	**Identify pilot tasks December 2012** **Develop compensation component April 2013** **Develop pilot training and support network April 2013** **Phase 2 piloting May 2013**	
Environmental Stewardship	Identify and implement at least one means of reducing consumption of electricity on the plaza Expand sustainable development practices across the plaza Investigate potential solar panels to support consumption on the plaza and develop a potential non-toll revenue source.	**Identification of cost savings mechanisms May 2013** **Construction of more recycling centres strategically placed around the plaza May 2013** **Identification of possibilities March 2013**	

General Strategies

Government Relations Program

BWBC recognizes that it must build upon and strengthen its relationships with all levels of governments, agencies and associated stakeholders on both sides of the border in order to ensure a safe, efficient and enjoyable experience for BWBC customers.

Background

The events of the summer of 2007 provided the catalyst for BWBC to dedicate the resources required to address the issue of unacceptable wait times. U.S. bound, BWBC customers experienced 2-3 hour delays throughout July and August 2007 on a regular basis. The wait times caused numerous hardships as customers found themselves in unexpected gridlock without food, water, medication and the availability of washroom facilities. Commuters, many of whom were Canadian nurses working in the U.S. were late for work; others missed flights, family and sporting events. Crossing the border into the United States was becoming a "hassle" to both U.S. and Canadian travelers. Commercial traffic was also being affected as the long car queues obstructed their access to the bridge plaza threatening just in time deliveries. Trusted traveler programs users such as FAST and NEXUS which normally clear the border in an expeditious manner were also victims of the congestion and delays. Other border crossings were experiencing similar delays not seen since the events of 9-11. Local, regional and national media attention spoke of the "thickening" of the border.

CBSA has a significant impact locally on the attitudes and efficiency of travelers entering Canada via the Blue Water Bridge. BWBC intends to maintain a positive and productive relationship with CBSA to ensure BWBC understands and accommodates the border-based needs of the CBSA. BWBC will sustain the lines of communication to ensure CBSA representatives appreciate the

needs and concerns of BWBC's customers and the realities and importance of maintaining an efficient border crossing.

BWBC recognized that trade and tourism were not only being affected by these delays in the short term but very possibly in the long term. As Canadian and American customers perceive the increased likelihood of delays at the border, it will be ingrained in the public psyche to not even consider a trip to or from Michigan and Ontario.

Research

An analysis of the lengthy delays experienced in the summer of 2007 indicated that processing times by U.S. Customs and Border Protection had increased not only at the Blue Water Bridge but at all Ontario border crossings with the States of Michigan and New York. Data was gathered from the BWBC Toll System, Toll Supervisor reports and log entries. The results clearly indicated that the delays to US bound traffic were more frequent than previous summer periods yet volumes were appreciably lower. In calendar year 2007 there were 151 days where delays of one hour or more were recorded according to Toll Supervisor's log entries. Similarly, in 2009, with traffic volumes down significantly from 2008, the frequency of unacceptable traffic delays increased. There has been improvement in 2010 and continued vigilance to make traffic crossing efficient while maintaining homeland security is required.

The mission of a safe, efficient and enjoyable border crossing experience is BWBC's primary concern with the issue of the "thickening' of the Canada/U.S. border to be addressed in our own small but effective way with both governments and the departments that oversee Customs enforcement.

Plan

Strengthen and build upon relationships in order to educate, inform and offer solutions to legislators, bureaucrats and Customs officials on facilitating the flow of legitimate trade and travel across our borders while maintaining security. This will be achieved by maintaining memberships in and participating in border focused organizations such as CAN/AM BTA, the Public Borders Operators Association (PBOA), Sarnia Lambton Chamber of Commerce Transportation Committee and the Transportation Border Working Group and the Border Commercial Consultative Committee.

The plan also includes engaging and providing information to members of Government in particular to ensure they will become more proactive in addressing the "thickening" of the border within the Canadian Government and with their U.S. counterparts. BWBC will ensure that any opportunity to make presentations, participate in panel discussions or symposiums and studies that will assist in achieving its' goal are taken advantage of to the fullest. Relationships with local Canada Border Service Agency and US Customs and Border Protection officials will also be strengthened in an effort to work cooperatively with one another to find solutions that will facilitate the flow of traffic across the BWB. Maintaining an open line of communication with officials at Transport Canada, the Canadian Consulate in Detroit, the U.S. Consulate in Toronto and the Canadian Embassy in Washington is also included in this plan.

Within its government affairs strategy, BWBC will often advocate on behalf of not only itself but also for those of our stakeholders. In April 2011, BWBC's Vice President of Operations testified in Congress before the House Committee on Homeland Security – Sub-Committee on Border and Maritime Security in Washington D.C. in support of the American Plaza Expansion initiative. Our traffic congestion on the Canadian side is a direct result of the bottleneck on the small American plaza. The testimony described the geographic, physical and financial constraints and

the best solution to overcome our challenges and the efforts we make to bring these issues to the attention of those agencies that have the ability to improve policies and processes at the international border level.

Obstacles to Success
There are variables that are outside our control that may hinder the success of the goal put forth in this plan. Another terrorist attack in the United States or one in Canada will certainly affect the efficient flow of traffic across our borders. A change in the leadership of the United States and new tougher border policies and requirements may also cause the border to "thicken". Efforts to promote trusted traveler programs such as FAST and NEXUS will mitigate some of these issues.

Performance Tracking
The plan will be monitored and evaluated by comparing the number of days where delays for US bound traffic was one hour or more. This information will be compiled by the Operations Department in the same manner as was done in 2007 in order to ensure continuity. The results will be compared on a monthly basis from the previous year and will be reported monthly to BWBC Board of Directors. This method will be used since no other previous base line had been established against which to measure wait times.

Community Relations Program Plan, Fiscal 2011-2013

Plan Purpose & Background:

BWBC recognizes that hosting one of North America's busiest international crossings offers both benefits and challenges for our host communities in Lambton County. The purpose of the Community Relations Program is to build and sustain community understanding, appreciation and support for its operations, so that it can continue to efficiently and effectively meet its service mission and achieve its vision. A responsible, proactive and multi-dimensional community relations program will also enable us to contribute to an improved quality of life in Lambton County.

BWBC recognizes that positive and productive relationships with many and varied stakeholders, that is, those individuals and groups that might affect or be affected by the organization's plans or actions. It is critical to understand that positive stakeholder relations can only be built on open, honest and timely communications, consistently reinforced by responsible actions, which will earn the organization the public's respect and trust. Internal stakeholders are equally important. Our Transport Canada partner, our local member of parliament and our employees will need to be informed supporters of the program, to varying degrees. In particular, our employees will be encouraged to actively contribute to our community betterment plans and activities.

BWBC community relations programs and activities will encompass information, education and opinion gathering components. Concerning the latter aspect, BWBC recognizes that its plans, services and performance would benefit from community stakeholder input, at the planning stage, and from feedback, as we evaluate the effectiveness of our activities. Our community relations program will reflect a social-economic-environmental approach to business management. In this regard, our interests will be widespread, including transportation system efficiency and effectiveness, public security and safety, youth development, community social and cultural betterment, as well as community use of BWBC lands, resources and expertise.

Marketing/Customer Service Program Plan, Fiscal 2011-2013

Plan Purpose & Background:

Since the opening of the original span over the St. Clair River between Point Edward, ON and Port Huron, MI, in 1938, the Blue Water Bridge has established itself as a major ground transportation link between Canada and the United States. Toll revenues have provided a solid source of income for BWBC, covering ongoing operations and capital investments without the need for Canadian government subsidies. As such, it is important that a plan be in place that will contribute to the sound financial standing of the Blue Water Bridge, by ensuring that BWBC's services remain aligned with customer needs and preferences and making cross-border travelers aware of its features and benefits.

The customer service component of the plan will assist BWBC to sustain the numbers and increase the loyalty of its existing customer base. An emphasis will be placed on the organization's stated role of providing a service that is safe, efficient and enjoyable for our customers, so as to earn the Blue Water Bridge the status of being recognized as an essential part of their travel experience. The customer service element will include information, education and opinion gathering components, engaging employees, customers and other stakeholders in the use and further development of existing, proposed and potential services and facilities.

The complementary marketing component of the plan will support BWBC's legislated ability and historical practice of generating revenues to cover the costs of meeting its mandate. The function will pursue avenues of identifying potential customers and increasing their awareness of, and appreciation for, the bridge's features and benefits. The marketing segment of the plan will also identify customer needs and preferences, which could lead to traveler facility and service improvements, or new revenue-generating opportunities.

Employee Management Program Strategy

BWBC has historically had good working relationships with the employees and representing union. Strategies are being put in place to maintain this harmonious relationship which includes the continuation of regular Union/Management meetings.

We take particular pride in our employees who continually go beyond the scope of their jobs to provide an efficient and customer-friendly plaza, well appreciated by the many people who have crossed the bridge spans and by the many people who work on the plaza. As well, BWBC continues to provide mandatory, voluntary and personal training including higher education to our employees.

Salary administration and job descriptions have been subjected to a formal review by an independent salary administration consultant. Job descriptions have been re-written and re-evaluated to ensure that job responsibilities correspond with equitable pay both internally and externally.

Our Mutual Respect policy was revised in 2007. Workshops were conducted with all employees to develop and rollout the program. Monitoring and progress reporting will be overseen by the HR Manager who will periodically report to the management team.

BWBC plans to incorporate improvements into the employee management program by the end of 2012-2013, that will strengthen and augment the measures currently being implemented and address the following areas of specific interest to the Board:

- Expand employee organizational orientation activities to ensure employees become familiar with how the board's mission, vision and values statements and various program policies are linked to their daily responsibilities

- Implement an employee orientation program in place explaining our mission and vision and various program policies (not just an initial orientation). BWBC will expand the role of the Customer Service Manager to train & educate employees on an ongoing basis of the mission and vision and how employees can contribute to the organization in their daily roles in fulfilling the Mission and Vision

- Review all policies; add, edit and delete policies so that remaining policies are compatible with the mission and vision and values statement

- Present an up-to-date assessment of the employee organization/reporting structure to assure the Board that an appropriate number of properly qualified personnel exists, or is proposed within the five-year personnel resources allocation plan, to effectively meet the current and anticipated demands on the organization

- Report on the findings and future actions related to the latest salary and wage structure evaluation, to assure the board of the BWBC's continued ability to retain and attract suitably qualified employees. Report on the Hay Compensation Structure for Non-Union Jobs that was performed in 2007 and set timelines for future salary evaluations.

- The report will identify areas of success and provide specific recommendations for further improving employee relations and productivity. Management will have a formal employee satisfaction survey conducted which will include the above bullet points. The survey will be conducted with all BWBC employees to find out their level of satisfaction with the organization.

- Report on the status of succession planning to assure the board that measures are in place to encourage the retention of key personnel and to ensure the effective continuation of operations should they leave BWBC employment. The report should also identify the measures that have been put in place to maintain operations as employees retire from employment.

Managing our Risks:

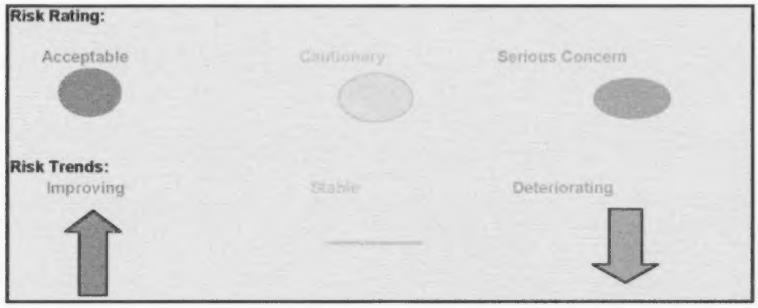
BWBC's management of its risks is governed by a Risk Management policy which sets out the Board's responsibilities to:

- Understand the significant risks to which BWBC is exposed;
- Establish appropriate and prudent risk management policies for those risks, review the policies regularly, and satisfy the Board on an annual basis that the policies continue to be appropriate and prudent;
- Obtain reasonable assurance, on a regular and annual basis that the policies continue to be appropriate and prudent;
- Obtain reasonable assurance, on a regular and annual basis, that the Corporation has an effective risk management process and that risk management policies are being administered, maintained and updated as required.

The Board's Audit Committee is mandated to assist in carrying out these responsibilities and has established expectations of management with respect to supporting the Board in fulfilling its risk management responsibilities. Management's risk management process and results are subject to validation by BWBC's internal audit function.

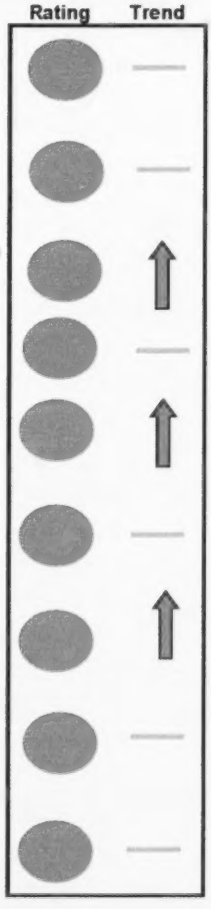
BWBC's internal auditor, Ernst & Young, conducted an "Enterprise Risk Management Workshop" during the summer of 2010. From this exercise the Board and senior management identified our 12 top risks with the following order of ranking:

1. Managing Market Share
2. Deterioration in Government Relations
3. Inadequate Succession Planning
4. Breakdown in Community Support
5. Regulatory Intervention
6. Inadequate Bridge Maintenance
7. Failure to Sustain Competition
8. Lack of Product and Market Innovation
9. Cost/Schedule Overruns
10. Failure in Use of Technology
11. Inability to Repay Debt Covenants
12. Inadequate Contract Management



Overview of BWBC's Assessment of its Significant Risks

BWBC's Operational Risk: BWBC's risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.



Safety and Security Risk: The risk that BWBC fails to ensure the safety of its personnel and the security and integrity of its assets, including the confidentiality of its information.

Business Continuity Risk: The risk that a disruption impacting BWBC's personnel, information, premises, technology or operations will impede its ability to achieve its statutory objects and conduct of its affairs.

Process Risk: The risk resulting from the incorrect execution of a breakdown in, or a gap in, a policy, practice or control respecting BWBC's processes.

Structural Risk: The risk that the structure of the bridge spans will be compromised due to environmental effects and traffic stresses.

Information Risk: The risk that timely, accurate and relevant information is not available to facilitate informed decision making and/or the exercise of effective oversight.

Legal/Compliance Risk: The risk that BWBC fails to identify, consider, fulfill or comply with its legal and other obligations and requirements, in the conduct of its affairs.

People Risk: The risk resulting from inadequacies in the competencies, capacity or performance, or from the inappropriate treatment of BWBC employees.

Technology Risk: The risk that BWBC's technology does not appropriately support the achievement of its statutory objects and the conduct of its affairs.

Reputation Risk: The risk of an event significantly affecting stakeholders' perceived trust and confidence in BWBC, creating a public backlash which could result in a financial or other loss to BWBC.

BWBC's Financial Risk: BWBC's risk associated with managing its assets and liabilities.

Liquidity/Solvency Risk: The risk that funds will not be available to BWBC to honour its cash obligations as they arise.

Event Risk: The risk of loss to BWBC of events beyond its control such as economic downturns, security alerts and emergencies and other unforeseen events.

Market Risk: The risk of loss attributable to adverse changes in the values of financial instruments and other inverstments or assets owned directly by BWBC, as a result of changes in market rates (such as interest rates and foreign exchange rates) or prices.

Competitive Risk: The risk that changes and improvements made by our competitors or by changes in government policy that might significantly affect traffic volumes.

Discussion of a Deteriorating Risk Condition:

Liquid/Solvency Risk		*The risk that funds will not be available for BWBC to honour its cash obligations as they arise*

BWBC is responsible for the retirement of $110 million, 6.41% Revenue Bonds, due July 9th, 2027. Bond covenants are in place to ensure adequate liquidity over the duration of the bond issue. During this period of time, in the event temporary operating cash deficiencies occur resulting from the timing of capital expenditure payments, a $15 million line of credit is in place. An additional credit facility of $15 million was secured during FY 2010-2011 to finance the infrastructure program. BWBC's borrowing may not exceed $125 million. As per the Minister of Finance's approval of the borrowing plan, this second line of credit is not to be used to cover cash shortages resulting from operating losses.

Based on the current 5-year corporate plan 2013-2017, our ability to satisfy existing bond covenants remains unimpaired. Management employs financial forecast modeling to proactively identify short-and-long-term potential for cash deficiencies for up to 5 years into the future. In the event that future cash deficiencies are identified, BWBC has the authority through the *Blue Water Bridge Authority Act* (Canada) to fix and charge tolls based on a pre-set formula; negotiate with our chartered bank, and; coordinate financial remediation solutions with Transport Canada.

Based on our financial forecast which identifies declining debt service coverage ratios, the bond rating *may* be downgraded further during the Fall 2012. Using Standard & Poors methodology for establishing the debt service coverage ratio, S&P is concerned with the 2012-2013 ratio of 1.03. With reference to the corporate plan 2013-2017, current assets are forecast to be less than current liabilities until 2014-2015. Timing of cash outlays may periodically be an issue and will be monitored closely. However, any cash shortfalls should be temporary and BWBC should be able to cover the overdrafts within the short-term (ie. less than a year). Consideration of increasing the toll rates or implementing them earlier than planned will always be considered if long-term overdrafts appear more likely to occur. While there is a possibility of a temporary overdraft occurring during FY 2012-2013 depending on the timing of the payments for the bridge maintenance repairs and the July 9th bond payment, it is unlikely to occur due to BWBC's recent decision to defer almost $3 million in bridge repairs originally planned for 2012-2013 into the next fiscal year, 2014-2015.

There are no practical risks that would come into play with a lower bond rating if it were to actually occur as long as the rating remained "investment grade". The increase in both truck and car volumes in FY 2011-2012 along with the inclusion of two full toll rate adjustments for FY 2012-2013 and FY 2014-2015 should mitigate any potential for a further downgrade. A further assessment will be conducted by S&P in November 2012 and BWBC will communicate immediately with Transport Canada as to the bond rating assessed.

The impact of further debt would have a deteriorating effect on our current 5-year forecast for the bond coverage ratios. However, for that very reason, BWBC is not undertaking any significant capital projects until the master capital plan is updated and with further communication with Transport Canada as to the availability of federal funds to contribute to such projects.

Critical Accounting Policies and Future Policy Changes:

During 2011-2012 BWBC adopted IFRS and the "Summary of Significant Accounting Policies" referenced in Notes 2 and 3 of the Financial Statements. BWBC's capital asset policy has been revised to incorporate the IFRS guidelines.

BWBC received assistance with its IFRS conversion from the accounting firm PricewaterhouseCoopers (PwC).

IFRS opening balance sheet adjustments increased retained earnings by a one-time adjustment of almost $56 million due to the fair value assessment for the bridge spans and buildings ($55.8 million); reinstatement of the long-term debt bond transaction costs ($0.8 million), and; recognition of the cumulative actuarial losses on the employee future benefits liability (-$0.6 million).

The following table provides a summary of key activities remaining for the IFRS transition project:

Year	Required Activities
2012/13	• Monitor all proposed and continuing projects of the International Accounting Standards Board, giving consideration to any changes expected to impact BWBC. • Continue to communicate changes and provide training as required.

The capital asset policy has been revised due to IFRS requirements and will be in front of the Board to approve during the Fall 2012. With reference to Note 3 (m) of the Financial Statements, future changes to accounting policies will be considered with accounting standards currently issued but not yet effective for financial instruments (IFRS 9), fair value measurement (IFRS 13), property, plant and equipment (IAS 16) and employee benefits (IAS 19).

Internal Controls:

During fiscal 2011-2012, our internal auditors, Ernst and Young, conducted an "Enterprise Risk Management" Workshop and three internal audits: (1.) Payroll Audit; (2.) Working Capital Audit, and; (3.) Federal Infrastructure Claims Audit.

A payroll audit was conducted to review the payroll process and to assess whether adequate and effective controls are in place to ascertain the integrity of payroll transactions.

A working capital audit was conducted to review BWBC's working capital management strategy against industry and other organization's leading practices to identify potential opportunities to enhance BWBC's existing strategy.

The federal infrastructure claims audit was conducted to provide independent and objective assurances that: the management framework is appropriate, provides due consideration to risk assessment and management, and ensures compliance with the terms and conditions of the Agreement; the funds are spent for the purposes intended, and; prompt and timely corrective action is taken in response to audit findings.

Blue Water Bridge Canada
Financial Statements
For the year ended August 31, 2012

Canada

Management's Responsibility for the Financial Statements

MANAGEMENT'S REPORT

The financial statements and all other information contained herein are the responsibility of management and have been reviewed and approved by the Directors of Blue Water Bridge Canada. These financial statements, which include amounts based on management's best estimates as determined through experience and judgment, have been properly prepared and are in accordance with International Financial Reporting Standards.

Management of Blue Water Bridge Canada maintains books of account, records, financial and management control, and information systems, which are designed for the provision of reliable and accurate financial information on a timely basis. These controls provide reasonable assurance that assets are safeguarded, that resources are managed economically and efficiently in the attainment of corporate objectives, that operations are carried out effectively and that transactions are in accordance with Part X of the *Financial Administration Act* and regulations, the *Blue Water Bridge Authority Act* and the by-laws of Blue Water Bridge Canada.

The Auditor General of Canada conducts an independent audit of the annual financial statements and reports on the audit to the Minister of Transport, Infrastructure and Communities.

The Board of Directors' Audit Committee, which consists of four members, none of whom is an officer of Blue Water Bridge Canada, reviews and advises the Board on the financial statements and the Auditor General's report thereto. The Audit Committee meets with management on a regular basis and occasionally with the Office of the Auditor General of Canada to discuss the financial reporting process as well as auditing, accounting and reporting issues.

Chuck Chrapko
President and CEO

David Joy, BA, CGA
Chief Financial Officer

Sarnia, Ontario
Canada

November 27, 2012

INDEPENDENT AUDITOR'S REPORT

To the Minister of Transport, Infrastructure and Communities

Report on the Financial Statements

I have audited the accompanying financial statements of the Blue Water Bridge Authority, which comprise the statements of financial position as at 31 August 2012, 31 August 2011 and 1 September 2010, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years ended 31 August 2012 and 31 August 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained in my audits is sufficient and appropriate to provide a basis for my audit opinion.

240 rue Sparks Street, Ottawa, Ontario K1A 0G6

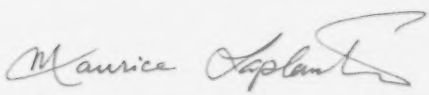
Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Blue Water Bridge Authority as at 31 August 2012, 31 August 2011 and 1 September 2010, and its financial performance and its cash flows for the years ended 31 August 2012 and 31 August 2011 in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act*, I report that, in my opinion, the accounting principles in International Financial Reporting Standards have been applied, after giving retrospective effect to the adoption of the new standards as explained in Note 21 to the financial statements, on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Blue Water Bridge Authority that have come to my notice during my audits of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Blue Water Bridge Authority Act* and the by-laws of the Blue Water Bridge Authority.



Maurice Laplante, CA
Assistant Auditor General
for the Auditor General of Canada

27 November 2012
Ottawa, Canada

Statement of Financial Position

(Canadian $) As at	August 31, 2012	August 31, 2011	September 1, 2010
Assets			
Current			
Cash (Note 4)	$ 9,314,854	$ 7,987,690	$ 13,960,797
Investments (Note 6)	32	1,069,906	7,920,167
Trade and other receivables (Note 5)	421,955	2,247,859	1,514,750
Prepaid expenses	372,045	373,439	318,940
	10,108,886	11,678,894	23,714,654
Non-current			
Investments (Note 6)	1,167,581	1,117,387	3,340,906
Property, plant and equipment (Note 7)	214,245,692	218,927,712	202,616,809
Intangible assets (Note 7)	108,703	269,578	368,292
Investment property (Note 7)	16,055,570	16,874,212	15,024,543
Restricted assets (Note 8)			
Debt service reserve fund	3,531,188	3,405,935	3,470,933
Operating and maintenance contingency fund	2,286,834	2,222,877	1,689,381
	5,818,022	5,628,812	5,160,314
Total assets	$ 247,504,454	$ 254,496,595	$ 250,225,518
Liabilities			
Current			
Trade and other payables	$ 4,020,119	$ 2,859,594	$ 6,373,813
Holdbacks payable	118,990	992,116	4,394,015
Deferred revenue (Note 10)	1,971,245	1,642,495	1,524,167
Current portion of bank loan payable (Note 9)	390,206	375,391	-
Current portion of bonds payable (Note 12)	3,440,690	3,226,301	3,025,270
	9,941,250	9,095,897	15,317,265
Non-current			
Employee benefits (Note 11)	5,775,037	5,336,370	4,733,767
Bank loan payable (Note 9)	14,204,560	14,594,766	-
Bonds payable (Note 12)	80,693,106	84,133,796	87,360,098
	100,672,703	104,064,932	92,093,865
Total liabilities	110,613,953	113,160,829	107,411,130
Equity			
Retained earnings	136,890,501	141,335,766	142,814,388
Total liabilities and equity	$ 247,504,454	$ 254,496,595	$ 250,225,518

Contingencies and Provisions (Note 15) and Commitments (Note 16)
The accompanying notes form an integral part of the financial statements.

Approved by the Board of Directors:

Director

Director

On behalf of Management:

Chief Financial Officer

Statement of Comprehensive Income

(Canadian $)

For the year ended August 31	2012	2011
Revenues		
Tolls and services	$ **17,730,142**	$ 16,313,008
Facility rentals (Note 13)	**2,552,597**	2,455,481
Currency exchange department (Note 14)	**1,355,779**	1,205,663
Interest and sundry	**350,007**	419,115
Gain on disposal of property, plant and equipment	**13,629**	-
	22,002,154	20,393,267
Expenses		
Depreciation of property, plant and equipment	**7,584,773**	6,428,154
Interest on long-term debt	**6,109,463**	5,333,674
Human resources (Note 20)	**6,024,810**	5,202,126
Maintenance and other expenses (Note 20)	**2,267,083**	1,623,024
General and administrative (Note 20)	**1,781,773**	2,263,829
Contribution to Michigan Department of Transportation (Note 20)	**1,700,000**	-
Depreciation of intangible assets	**160,875**	153,063
Depreciation of investment property	**818,642**	868,019
	26,447,419	21,871,889
Comprehensive income (loss) for the year	$ **(4,445,265)**	$ (1,478,622)

Statement of Changes in Equity

Retained earnings, beginning of year	$ **141,335,766**	$ 142,814,388
Comprehensive income (loss) for the year	**(4,445,265)**	(1,478,622)
Retained earnings, end of year	$ **136,890,501**	$ 141,335,766

The accompanying notes form an integral part of the financial statements.

Statement of Cash Flows

(Canadian $)

For the year ended August 31	2012	2011
Cash flows from operating activities		
Comprehensive income (loss) for the year	$ (4,445,265)	$ (1,478,622)
Adjustments for items not affecting cash		
Depreciation of investment property	818,642	868,019
Depreciation of intangible assets	160,875	153,063
Depreciation of property, plant and equipment	7,584,773	6,428,154
Amortization of bond agency fees	63,698	63,562
Change in employee benefits	438,667	602,603
Gain on disposal of property, plant and equipment	(13,629)	-
Interest on investments	69,831	(14,673)
Foreign exchange loss	156,002	45,641
	4,833,594	6,667,747
Changes in operating activity items		
Trade and other receivables	1,825,904	(733,109)
Prepaid expenses	1,394	(54,499)
Trade and other payables	1,160,525	(3,514,219)
Holdbacks payable	(873,126)	(3,401,899)
Deferred revenue	328,750	118,328
Funds received from federal government - infrastructure	1,683,871	5,907,980
	4,127,318	(1,677,418)
Net cash provided by operating activities	8,960,912	4,990,329
Cash Flows from investing activities		
Proceeds on disposal of property, plant, and equipment	37,526	-
Purchase of property, plant and equipment	(4,596,139)	(28,219,697)
Purchase of investment property	-	(2,631,292)
Purchase of intangible assets	-	(54,349)
Borrowing costs capitalized as part of property, plant and equipment	(14,380)	(427,338)
Borrowing costs capitalized as part of investment property	-	(86,396)
Investments		
Cash receipts from sale	949,848	9,088,451
Restricted assets		
Cash receipts from sale	770,208	375,000
Cash payments to acquire	(959,418)	(843,499)
Net cash used in investing activities	(3,812,355)	(22,799,120)
Cash Flows from financing activities		
Cash proceeds from bank loan - current portion	14,815	375,391
Cash proceeds from bank loan	-	14,594,766
Cash repayment of bank loan	(390,206)	-
Cash repayment of bonds payable - current portion	150,691	201,167
Cash repayment of bonds payable	(3,440,691)	(3,289,999)
Net cash used in financing activities	(3,665,391)	11,881,325
Foreign exchange loss on cash held in foreign currency	(156,002)	(45,641)
Increase (Decrease) in cash during the year	1,327,164	(5,973,107)
Cash, beginning of year	7,987,690	13,960,797
Cash, end of year	$ 9,314,854	$ 7,987,690
Supplemental disclosure of cash flow information:		
Interest received	$ 160,174	$ 340,041
Interest paid	6,120,335	5,843,964

The accompanying notes form an integral part of the financial statements.

Notes to the Financial Statements

1. Authority and Objective

Blue Water Bridge Canada (BWBC), legally known as the Blue Water Bridge Authority is located at 1555 Venetian Boulevard, Point Edward, Ontario, Canada. BWBC was established by the *Blue Water Bridge Authority Act* (Canada) on May 21, 1964; as per Section 22, BWBC is not an agent of Her Majesty in right of Canada. On April 26, 2002 BWBC became a Crown corporation, and as such, is listed under Schedule III, Part I of the *Financial Administration Act* and is not subject to income tax under the provisions of the *Income Tax Act*. In October 2007 the Minister of Transport, Infrastructure and Communities confirmed that the new operating title of Blue Water Bridge Canada was approved and registered by the *Federal Identity Program*.

The Blue Water Bridge complex includes the Canadian portion of two international toll bridges connecting Sarnia, Ontario, Canada with Port Huron, Michigan, USA. The westbound bridge was completed in October, 1938 and the eastbound bridge in July, 1997. Under the direction and guidance of the Minister of Transport, Infrastructure and Communities, the mandate of Blue Water Bridge Canada is to operate, maintain and repair the Canadian halves of the two bridges, approaches and structures.

The *Blue Water Bridge Authority Act* and section 6 of the *Customs Act*, require Blue Water Bridge Canada to provide, equip and maintain, free of charge, adequate buildings, accommodations or other facilities for the proper detention and examination of imported goods or for the proper search of persons by customs and immigration officers.

These financial statements were approved by the Board of Directors for issue on November 27, 2012.

2. Basis of Measurement and Adoption of IFRS

BWBC previously prepared its financial statements in accordance with Canadian generally accepted accounting principles ("CGAAP") as defined in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and to require publicly accountable enterprises to apply these standards effective for years beginning on or after January 1, 2011. Since BWBC is considered a Government Business Enterprise for the reason that it has the ability to sustain its current operations and generate additional revenue as it deems necessary, then BWBC has adopted IFRS. Accordingly, these are BWBC's first annual financial statements prepared in accordance with IFRS as issued by the IASB. In these financial statements, the term "CGAAP" refers to Canadian GAAP before the adoption of IFRS.

The financial statements have been prepared in compliance with IFRS. Subject to certain transition elections and exceptions disclosed in note 21, BWBC has consistently applied the accounting policies used in the preparation of its opening IFRS statement of financial position at September 1, 2010 throughout all periods presented, as if these policies had always been in effect. Note 21 discloses the impact of the transition to IFRS on BWBC's statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flows, including the nature and effect of significant changes in accounting policies from those used in BWBC's financial statements for the year ended August 31, 2011 prepared under CGAAP.

Notes to the Financial Statements

3. Summary of Significant Accounting Policies

a) Financial Instruments

Financial assets or liabilities are measured at fair value on initial recognition, including transaction costs. The measurement of financial instruments in subsequent periods depends on their classification. The classification of BWBC's financial instruments is presented in the following table:

Categories	Financial Instruments
Financial assets held-to-maturity	Investments Restricted assets
Loans and receivables	Trade and other receivables Cash
Financial liabilities measured at amortized cost	Trade and other payables Holdbacks payable Bank loan payable Bonds payable

Investments and restricted assets are measured at amortized cost. Interest is recognized using the effective interest rate method and recognized in the Statement of Comprehensive Income. Investments are classified as non-current assets, except for those with maturities that are less than 12 months from the end of the reporting period, which are classified as current assets. Restricted assets are classified as non-current in accordance with the timing of their intended use.

Assets classified as loans and receivables are recorded at amortized cost using the effective interest rate method.

Other financial liabilities are measured at amortized cost using the effective interest method.

b) Impairment of Assets

i) Financial Assets

Assessment is made at the end of each report period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Notes to the Financial Statements

3. Summary of Significant Accounting Policies continued...

b) Impairment of Assets continued...

i) Financial Assets continued...

For financial assets measured at amortized cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognized in the Statement of Comprehensive Income. As a practical expedient, BWBC may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the Statement of Comprehensive Income.

ii) Non-Financial Assets

Assets that are subject to depreciation are reviewed at each reporting date to determine whether there is an indication of impairment. If any such indication exists, the entity shall estimate the recoverable amount of the asset. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped into the smallest group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

c) Property, Plant, Equipment, Investment Property, and Intangible Assets

Property, plant and equipment is presented on the Statement of Financial Position as cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditures that are directly attributable to the acquisition or the construction of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to BWBC and the cost of the item can be measured reliably. Repairs and maintenance are charged to the Statement of Comprehensive Income during the financial period in which they occurred.

Land is not depreciated. Depreciation on other assets is calculated using the methods and estimated useful lives below. Depreciation rates based on the estimated useful life of an asset are as follows:

Notes to the Financial Statements

3. Summary of Significant Accounting Policies continued...

c) Property, Plant, Equipment, Investment Property, and Intangible Assets continued...

Bridges and Truck Ramp	Straight line for 50-75 years
Buildings	Straight line 5-70 years
	5%-20% Diminishing balance basis
Buildings - residential (including land)	No depreciation
Equipment	10% Diminishing balance basis
Equipment - computer	Straight line 5-10 years
	10%-20% Diminishing balance basis
Property improvements	10%-20% Diminishing balance basis
Vehicles and construction equipment	20% Diminishing balance basis
Investment property	5%-20% Diminishing balance basis
	5-70 years straight-line
Intangible assets	Straight line for 5 years

Residual values and useful lives of property, plant and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period, or more often if events or circumstances dictate.

Property, Plant, and Equipment

i) Buildings

Ten buildings and all of the old booths that were not built in BWBC's latest phase of the master capital plan have been identified for demolition in accordance with the master capital plan. Depreciation has been accelerated to depreciate the remaining net book value over the period of time through to the planned date of demolition.

ii) Buildings – Residential

No depreciation on buildings-residential is recorded. The total acquisition cost of the buildings- residential will be transferred to the land account when these buildings are demolished.

iii) Construction-in-Process

Construction in process is not depreciated. When projects are significantly completed and put in use, the costs are transferred to the appropriate asset account and depreciation is initiated.

Intangible assets

The costs of purchases of computer software that meet the definition of intangible assets and that are separable from an item of related hardware are capitalized separately and depreciated over their useful lives on a straight-line basis over five years.

Investment Property

Investment property is property held to earn rental income. Investment property consists of property held under operating leases with tenants such as commercial customs brokers, private coffee shops, and a duty free store.

Notes to the Financial Statements

3. Summary of Significant Accounting Policies continued...

c) Property, Plant, Equipment, Investment Property, and Intangible Assets continued...

Properties which comprise a portion that is held to earn rental income or for capital appreciation and another portion held for use in the supply of services or for administrative purposes are accounted for separately as investment property and property, plant and equipment, respectively, if these portions could be sold separately or leased out separately under a finance lease.

Investment property is measured initially at cost and is subsequently accounted for under BWBC's accounting policy for property, plant and equipment.

d) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. BWBC's definition of a qualifying asset is any asset that costs over $1 million and takes over a year to be substantially ready for intended use or sale.

When general borrowings are incurred for the development of a qualifying asset, the capitalization rate applied to the resulting figure is the weighted average of the borrowing rates incurred.

e) Revenue Recognition

Toll and services revenues are recognized and recorded at the time the tolls are collected when the vehicles pass through the toll lanes. Payments received in U.S. dollars are translated into Canadian dollars based on daily exchange rates.

Facility rentals revenues are recognized and recorded in the periods in which they are earned. These revenues include lease payments received from tenants such as commercial custom brokers, private coffee shops, and a duty free store.

Currency exchange department revenues are recorded and recognized at the time the currency exchange transaction is completed. Payments received in U.S. dollars are translated into Canadian dollars based on daily exchange rates.

Interest is recognized and recorded in the period in which it is earned. The primary component of revenue in this category is bond interest.

Deferred revenues are comprised of tolls paid in advance by passenger vehicle users and commercial trucking companies. Revenue is recognized at the time the vehicles pass through the toll lanes. Payments received in U.S. dollars are translated into Canadian dollars based on daily exchange rates.

Notes to the Financial Statements

3. Summary of Significant Accounting Policies continued…

f) Foreign Currency Translation

The functional and presentation currency of BWBC is the Canadian dollar. Foreign currency accounts are translated to Canadian dollars as follows:

At the transaction date, each asset, liability, revenue or expense is translated through the use of the exchange rate in effect at that date. At the year-end date, monetary assets and liabilities denominated in a foreign currency are translated into Canadian dollars by using the exchange rate in effect at that date and the resulting foreign exchange gains and losses are included in the Statement of Comprehensive Income in the current period.

g) Employee Benefits

BWBC provides post-retirement benefits including health care, dental care, employee assistance, and life insurance to eligible employees and their dependents upon meeting certain requirements. The obligation and the cost of these benefits are determined on an actuarial basis using the projected unit credit method prorated on service and management's best estimate assumptions. The discount rate used to determine the accrued benefit obligation is based on market rates for non-current high quality bonds. The measurement date is August 31.

The net cost consists of the actuarially determined benefits for the current year's service, imputed interest on projected obligations and the amortization of actuarial gains or losses over the expected average remaining service life. Actuarial gains or losses are amortized over the employees' average remaining service life (16 years; 2011 - 16 years) only if the net actuarial gain or loss at the beginning of the year is in excess of 10% of the accrued benefit obligation at that date. These benefits are not pre-funded, resulting in a deficit equal to the accrued liability benefit obligation.

BWBC also provides defined contribution pension benefits to its employees. BWBC's contributions reflect the full benefit cost of the employer and they are charged to operations during the year in which the services are rendered.

h) Leases

As lessor, when assets are leased out under an operating lease, the asset is included in the Statement of financial position within property, plant and equipment and investment property. Leased assets include all of the investment property as disclosed in note 7 and buildings – residential as disclosed in note 7.

i) Federal, Provincial and Municipal Government Assistance

Federal, provincial and municipal government assistance is recorded as a reduction of the cost of the asset acquired when there is a reasonable assurance that the requirements for the approved grants are met.

Notes to the Financial Statements

3. Summary of Significant Accounting Policies continued…

j) Critical Accounting Estimates

The preparation of financial statements in accordance with IFRS requires management to make estimates that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the year. Actual results could differ significantly from management's best estimates as additional information becomes available in the future.

The following are estimates that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

i) Useful life expectancy predictions for investment property, intangible assets and property, plant and equipment.

ii) Estimates used in determining post-retirement defined benefit obligations. Additional information relating to employee-related liabilities is disclosed in note 11.

iii) Valuation of Investment property to fair value.

k) Critical Accounting Judgments

The preparation of financial statements in accordance with IFRS requires management to make judgements that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the year. Actual results could differ significantly from management's best estimates as additional information becomes available in the future.

The following are judgments that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

i) Classification of investments as held-to-maturity.

ii) Degree of componentization for buildings.

iii) Classification between property, plant and equipment to investment property.

iv) Classification of leases as finance or operating.

l) Contingencies and Provisions

In the normal course of its operations, BWBC becomes involved in various legal actions. Some of these potential liabilities may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is probable, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded in BWBC's financial statements.

Notes to the Financial Statements

3. Summary of Significant Accounting Policies continued…

m) Accounting Standards Issued but not yet Effective

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by BWBC. Management anticipates that all of the pronouncements will be adopted in the BWBC's accounting policies for the first period beginning after the effective date of the pronouncement. Certain other new standards and interpretations have been issued but are not expected to have a material impact on BWBC's financial statements. Information on new standards, amendments and interpretations not previously discussed that are expected to be relevant to BWBC's financial statements is provided below.

IFRS 9 Financial Instruments

IFRS 9 was issued to deal with classification and measurement requirements for financial assets and financial liabilities. The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2015.

IFRS 13 Fair Value Measurement

IFRS 13 provides a single source of guidance on how to measure fair value where its use is already required or permitted by other IFRS and enhances disclosure requirements for information about fair value measurements. It is effective for years beginning on/after January 1, 2013.

IAS 1 Presentation of Financial Statements

Effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2013, the IASB amended this standard to clarify the requirements for providing comparative information in the financial statements.

IAS 16 Property, Plant and Equipment

Effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2013, the IASB amended this standard to clarify classification requirements for servicing equipment.

IAS 19 Employee benefits

In June 2011, the IASB amended IAS 19 effective for fiscal years beginning on or after January 1, 2013. Amongst other changes, the amendments require entities to recognize actuarial gains or losses directly in other comprehensive income in the period in which they are incurred. Furthermore, the amendments to IAS 19 enhance the disclosure requirements for defined benefit plans, providing additional information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans. BWBC is still assessing the impact of the adoption of this standard on its financial statements as it will change the current policy of accounting for actuarial gains or losses.

Notes to the Financial Statements

4. Cash

BWBC's bank accounts are held at one Canadian chartered bank. Cash (including on hand) includes US $5,807,398 (2011 - US $2,112,271, September 1, 2010 – US $2,041,724) which has been translated to its Canadian equivalent of $5,727,837 (2011 - $2,066,646, September 1, 2010 –$2,172,191).

5. Trade and other Receivables

For the year ended August 31, 2012 $248,081 was receivable from rental properties (August 31, 2011 – $235,857, September 1, 2010 - $235,092), $8,334 was receivable from trucking accounts (August 31, 2011 - $16,791, September 1, 2010 - $9,807), $ 65,780 was receivable from Canada Revenue Agency, a related party, for HST recoverable (August 31, 2011 - $21,617, September 1, 2010 - $9,944), $ 99,760 was receivable from miscellaneous entities (August 31, 2011 – $307,947, September 1, 2010 - $40,673) and nothing was receivable from Transport Canada, a related party, for infrastructure claims (August 31, 2011 - $1,665,647, September 1, 2010 - $1,219,234).

6. Investments

BWBC invests in the money market. The investments are mainly composed of secure and low-risk government and corporate bonds. These investments are held-to-maturity in four separate investment accounts.

a) Current Investments

The portfolio is composed of Government and corporate bonds. The fair value of the investments determined using quoted market prices.

As at	August 31, 2012	August 31, 2011	September 1, 2010
General Investments (Carrying amount)			
Cash	$ -	$ -	$ 62
Financial Institutions	-	-	5,764,733
	-	-	5,764,795
Major Maintenance Fund (Carrying amount)			
Cash	32	-	11
Financial Institution	-	1,069,906	2,155,361
	32	1,069,906	2,155,372
	32	1,069,906	7,920,167
Fair Value			
General Investments	-	-	5,770,056
Major Maintenance Fund	32	1,079,710	2,197,389
	$ 32	$ 1,079,710	$ 7,967,445

Notes to the Financial Statements

6. Investments continued…

b) Non-current Investments

The portfolio is composed of Government and corporate bonds. The fair value of the investments was determined using quoted market prices.

As at	August 31, 2012	August 31, 2011	September 1, 2010
Major Maintenance Fund (Carrying amount)			
Government	$ 1,167,581	$ 1,117,387	$ 3,340,906
Fair Value			
Major Maintenance Fund	$ 1,223,408	$ 1,202,433	$ 3,574,673

7. Property, Plant, Equipment, Intangible Assets and Investment Property

a) Property, Plant and Equipment

	August 31, 2012		
	Cost	Accumulated Depreciation	Net Book Value
Land	$ 8,105,614	$ -	$ 8,105,614
Bridges & Truck Ramp	136,091,230	(5,644,553)	130,446,677
Buildings	65,415,406	(5,182,979)	60,232,427
Buildings-booths	3,165,916	(560,891)	2,605,025
Buildings-residential (including land)	621,729	-	621,729
Equipment	2,933,390	(1,700,585)	1,232,805
Equipment-computer	4,027,297	(3,225,966)	801,331
Construction in process	5,198,934	-	5,198,934
Property improvements	12,919,632	(8,227,279)	4,692,353
Vehicles and construction equipment	1,677,486	(1,368,689)	308,797
	$ 240,156,634	$ (25,910,942)	$ 214,245,692

	August 31, 2011		
	Cost	Accumulated Depreciation	Net Book Value
Land	$ 7,963,429	$ -	$ 7,963,429
Bridges & Truck Ramp	136,091,230	(2,823,509)	133,267,721
Buildings	64,307,258	(2,293,116)	62,014,142
Buildings-booths	3,144,315	(235,782)	2,908,533
Buildings-residential (Including land)	621,729	-	621,729
Equipment	2,819,025	(1,547,970)	1,271,055
Equipment-computer	3,975,703	(3,058,003)	917,700
Construction in process	3,917,704	-	3,917,704
Property improvements	12,876,129	(7,072,303)	5,803,826
Vehicles and construction equipment	1,766,069	(1,524,196)	241,873
	$ 237,482,591	$ (18,554,879)	$ 218,927,712

Notes to the Financial Statements

7. Property, Plant, Equipment, Intangible Assets and Investment Property continued...

a) Property, Plant and Equipment continued...

	September 1, 2010		
	Cost	Accumulated Depreciation	Net Book Value
Land	$ 7,963,429	$ -	$ 7,963,429
Bridges & Truck Ramp	134,399,070	-	134,399,070
Buildings	8,893,953	(207,079)	8,686,874
Buildings-booths	424,989	-	424,989
Buildings-residential (Including land)	621,729	-	621,729
Equipment	2,439,884	(1,413,791)	1,026,093
Equipment-computer	3,661,572	(2,801,143)	860,429
Construction in process	45,753,619	-	45,753,619
Property improvements	8,813,665	(6,226,034)	2,587,631
Vehicles and construction equipment	1,766,069	(1,473,123)	292,946
	$ 214,737,979	$ (12,121,170)	$ 202,616,809

	August 31, 2012					
	Opening Net Book Value	Additions	Transfers	Disposals	Depreciation	Closing Net Book Value
Land	$ 7,963,429	$ 142,185	$ -	$ -	$ -	$ 8,105,614
Bridges & Truck Ramp	133,267,721	-	-	-	(2,821,044)	130,446,677
Buildings	62,014,142	1,144,799	(18,911)	-	(2,907,603)	60,232,427
Buildings-booths	2,908,533	21,600	-	-	(325,108)	2,605,025
Buildings - residential (including land)	621,729	-	-	-	-	621,729
Equipment	1,271,055	95,454	18,911	-	(152,615)	1,232,805
Equipment-computer	917,700	55,389	-	(3,795)	(167,963)	801,331
Construction in process	3,917,704	1,281,230	-	-	-	5,198,934
Property improvements	5,803,826	43,503	-	-	(1,154,976)	4,692,353
Vehicles and construction equipment	241,873	142,488	-	(20,100)	(55,464)	308,797
	$ 218,927,712	$ 2,926,648	$ -	$ (23,895)	$ (7,584,773)	$ 214,245,692

Notes to the Financial Statements

7. Property, Plant, Equipment, Intangible Assets and Investment Property continued...

a) Property, Plant and Equipment continued...

	August 31, 2011					
	Opening Net Book Value	Additions	Transfers	Disposals	Depreciation	Closing Net Book Value
Land	$ 7,963,429	$ -	$ -	$ -	$ -	$ 7,963,429
Bridges & Truck Ramp	134,399,070	1,692,160	-	-	(2,823,509)	133,267,721
Buildings	8,686,874	3,933,474	51,479,831	-	(2,086,037)	62,014,142
Buildings-booths	424,989	2,719,326	-	-	(235,782)	2,908,533
Buildings - residential (including land)	621,729	-	-	-	-	621,729
Equipment	1,026,093	4,470,965	(4,097,378)	-	(128,625)	1,271,055
Equipment-computer	860,429	637,027	(322,897)	-	(256,859)	917,700
Construction in process	45,753,619	403,224	(42,239,139)	-	-	3,917,704
Property improvements	2,587,631	8,882,881	(4,820,417)	-	(846,269)	5,803,826
Vehicles and construction equipment	292,946	-	-	-	(51,073)	241,873
	$ 202,616,809	$ 22,739,057	$ -	$ -	$ (6,428,154)	$ 218,927,712

Borrowing costs capitalized to Property, Plant and Equipment for the year ended August 31, 2012 and August 31, 2011 were $14,381 and $427,338, respectively.

b) Intangible Assets

	August 31, 2012						
	Opening Cost	Additions	Closing Cost	Opening Accumulated Depreciation	2012 Depreciation	Closing Accumulated Depreciation	Net Book Value
Software	$ 990,479		990,479	$ (720,901)	(160,875)	(881,776)	$ 108,703
	$ 990,479	-	990,479	$ (720,901)	(160,875)	(881,776)	$ 108,703

	August 31, 2011						
	Opening Cost	Additions	Closing Cost	Opening Accumulated Depreciation	2011 Depreciation	Closing Accumulated Depreciation	Net Book Value
Software	$ 936,130	54,349	990,479	$ (567,838)	(153,063)	(720,901)	$ 269,578
	$ 936,130	54,349	990,479	$ (567,838)	(153,063)	(720,901)	$ 269,578

Notes to the Financial Statements

7. Property, Plant, Equipment, Intangible Assets and Investment Property continued...

b) Intangible Assets continued...

	September 1, 2010		
	Cost	Accumulated Depreciation	Net Book Value
Software	$ 936,130	$ (567,838)	$ 368,292
	$ 936,130	$ (567,838)	$ 368,292

c) Investment Property

Investment property comprises commercial properties that are leased to third parties. Investment properties are stated at historical cost less accumulated depreciation and impairment losses, if any.

	August 31, 2012		
	Cost	Accumulated Depreciation	Net Book Value
Investment property	$ 17,742,231	$ (1,686,661)	$ 16,055,570
	$ 17,742,231	$ (1,686,661)	$ 16,055,570

	August 31, 2011		
	Cost	Accumulated Depreciation	Net Book Value
Investment property	$ 17,742,231	$ (868,019)	$ 16,874,212
	$ 17,742,231	$ (868,019)	$ 16,874,212

	September 1, 2010		
	Cost	Accumulated Depreciation	Net Book Value
Construction in process	$ 9,737,345	$ -	$ 9,737,345
Investment property	$ 5,287,198	$ -	$ 5,287,198
	$ 15,024,543	$ -	$ 15,024,543

Notes to the Financial Statements

7. Property, Plant, Equipment, Intangible Assets and Investment Property continued...

c) Investment Property continued...

	August 31, 2012					
	Opening Net Book Value	Additions	Transfers	Disposals	Depreciation	Closing Net Book Value
Investment property	$ 16,874,212	$ -	$ -	$ -	$ (818,642)	$ 16,055,570
	$ 16,874,212	$ -	$ -	$ -	$ (818,642)	$ 16,055,570

	August 31, 2011					
	Opening Net Book Value	Additions	Transfers	Disposals	Depreciation	Closing Net Book Value
Construction in process	$ 9,737,345	$ -	$ (9,737,345)	$ -	$ -	$ -
Investment property	5,287,198	2,717,688	9,737,345	-	(868,019)	16,874,212
	$ 15,024,543	$ 2,717,688	$ -	$ -	$ (868,019)	$ 16,874,212

Borrowing costs capitalized to Investment Property for the year ended August 31, 2012 and August 31, 2011 were $0 and $86,396, respectively.

Fair value of the investment property has been determined based on a valuation performed by METRIX Realty Group, as at September 1, 2010 while using the Consumer Price Index as a base for the Fair Market Value increase. The value of the property has not been determined on transactions observable in the market because of the nature of the property and the lack of comparable data. The total fair value of the investment property has been determined to be $18,533,537 (August 31, 2011 - $18,147,895, September 1, 2010 - $15,024,543). The following main inputs have been used to determine the fair value using the cost method are as follows:

	August 31, 2012	August 31, 2011	September 1, 2010
Consumer Price Index (Sept.-Aug.)	**2.13%**	2.70%	n/a

Rental income for 2012 amounts to $2,552,597 (2011 - $2,455,481) included within 'facility rentals'. Contingent rent of $1,328,646 (2011 - $1,289,409) was also recognized. Direct operating expenses of $136,401 (2011 - $175,273) was reported within general and administrative and maintenance expenses. No investment property was vacant at August 31, 2012, August 31, 2011 or September 1, 2010.

Notes to the Financial Statements

8. Restricted Assets

In accordance with the Master Trust Indenture, BWBC has established a Debt Service Reserve Fund and an Operating and Maintenance Fund.

Debt Service Reserve Fund

On the issuance of the bonds, BWBC established the Debt Service Reserve Fund in the amount of $4.5 million. The bond covenant requires that the Debt Service Reserve Fund be established at the level according to the following:

Gross Debt Service Coverage Ratio	Debt Service Reserve Fund amount
> 3.00	No amount
> 2.00 and < 3.00	25% of the Debt Service Amount
< 2.00	50% of the Debt Service Amount

Gross Debt Service Coverage Ratio means, on any date, the sum of free cash flow for a twelve month period and the revenue account balance (cash plus all investments plus credit facilities) divided by the sum of the net interest amount and the total principal reduction amount for the twelve month period.

Debt Service Amount means, on any date, the sum of the projected net interest amount and the projected total principal reduction amount for the twelve month period commencing on the first day of the month.

As at August 31, 2012, the Gross Debt Service Coverage Ratio is 3.94 (August 31, 2011 - 4.33, September 1, 2010 – 8.68).

In anticipation of lower coverage ratios in the future as a result of the drawdown in investments to finance capital projects, a balance will be maintained at a level equivalent to that required as if the Gross

Debt Service Coverage Ratio was greater than 2.00 but less than 3.00. This would require a minimum reserve fund of $2,221,545. Thus, a balance of $3.5 million will be voluntarily maintained.

Debt Service Reserve Fund

As at	August 31, 2012	August 31, 2011	September 1, 2010
Carrying amount			
Investments			
Cash	$ 17	$ 17	$ -
Government	3,531,171	3,405,918	3,470,933
	$ 3,531,188	$ 3,405,935	$ 3,470,933
Fair value			
Investments	$ 3,584,071	$ 3,542,713	$ 3,510,839
	3,584,071	3,542,713	3,510,839

The fair value of the investments was determined using quoted market prices.

Notes to the Financial Statements

8. Restricted Assets continued...

Operating and Maintenance Contingency Fund

On the issuance of the bonds, BWBC established an Operating and Maintenance Contingency Reserve Fund in the amount of $2.0 million. Thereafter the reserve must be at least equal to twenty-five percent (25%) of the Operating and Maintenance expenses incurred by BWBC. Operating and Maintenance expenses do not include amortization or the interest on any borrowings. As at August 31, 2012, the required minimum balance is established at $2,663,505 (August 31, 2011 - $2,058,487, September 1, 2010 - $1,875,482). The shortfall has been covered in September 2012 with an additional $400,000 investment.

As of	August 31, 2012	August 31, 2011	September 1, 2010
Carrying amount			
Cash	$ 6	$ 11,529	$ -
Government	329,432	314,598	300,397
Financial investments	1,957,396	1,896,750	1,388,984
	$ 2,286,834	$ 2,222,877	$ 1,689,381
Fair value			
Investments	$ 2,311,142	$ 2,258,209	$ 1,712,588
	2,311,142	2,258,209	1,712,588

The fair value of the investments was determined using quoted market prices.

9. Credit Facilities

BWBC maintains two separate credit facilities with a Canadian chartered bank in the total amount of $30 million (2011 - $30 million). BWBC has drawn upon a $15 million credit facility in the following four tranches:

Tranche 1	$3,000,000 @ 2.83% matures July 27, 2014
Tranche 2	$4,000,000 @ 3.37% matures July 27, 2016
Tranche 3	$4,000,000 @ 3.81% matures July 27, 2018
Tranche 4	$4,000,000 @ 4.42% matures July 27, 2021

No security is pledged against the credit facility and there are no specific restrictions or covenants. As at August 31, 2012, there was a balance of $14,594,766 (August 31, 2011 - $14,970,157, September 1, 2010 - Nil). The maximum amount that BWBC can borrow is $125 million with Government approval.

The fair value of the repayments of the credit facilities, including interest, for the year ended August 31, 2012 is $21,943,605 (August 31, 2011 - $22,861,159)

Notes to the Financial Statements

9. Credit Facilities continued...

Principal and interest payments for the next five years and thereafter are shown as follows:

	Year	Principal	Interest	Total
Current				
	2013	$ 390,206	$ 527,342	$ 917,548
Non-current				
	2014	404,068	513,480	917,548
	2015	418,954	498,594	917,548
	2016	433,946	483,602	917,548
	2017	450,860	466,687	917,547
	Thereafter	12,496,732	4,860,995	17,357,727
		14,204,560	6,823,358	21,027,918
		$ 14,594,766	$ 7,350,700	$ 21,945,466

10. Deferred Revenue

Deferred revenue of $1,971,245 at August 31, 2012 (August 31, 2011 - $1,642,495, September 1, 2010 - $1,524,167) represents the balance, at year end, for tolls paid in advance by passenger vehicles of $926,496 at August 31, 2012 (August 31, 2011 - $694,098, September 1, 2010 - $551,156) and commercial trucking companies of $1,044,749 at August 31, 2012 (August 31, 2011 - $948,397, September 1, 2010 - $973,011).

11. Employee Benefits

a) Pension benefit

BWBC has contracted an outside life insurance firm to operate and administer an employee pension plan. Employees of BWBC may voluntarily join the pension plan, subject to eligibility requirements. The pension plan, which is a defined-contribution pension plan, is funded on a money-purchase basis with members contributing 6.5% of their annual earnings. In accordance with the plan, BWBC is required to contribute an amount equal to the member's required contribution. During the year, BWBC's pension contributions amounted to $208,955 (2011 - $203,727).

b) Severance Packages and Special Termination Benefits

There were no special termination benefits offered in fiscal 2012. In fiscal 2011, a special termination benefit of $289,015 was awarded to 1 employee. As at August 31, 2012, the special termination benefit payable is $180,634. Of this amount, $144,508 is recognized as a current liability and $36,127 is recognized as a non-current liability.

c) Other Benefits

Other than the pension plan, BWBC provides post-retirement benefits to its eligible employees through health, dental, life insurance and an employee assistance program. Benefit costs related to current service are charged to income as services are rendered.

Notes to the Financial Statements

11. Employee Benefits continued...

c) Other Benefits continued...

The following table sets forth the status of the post-retirement non-pension related benefit plan:

For the year ended August 31	2012	2011
Change in defined benefit obligation		
Defined benefit obligation, beginning of year	$ 5,159,797	$ 4,711,117
Current service cost	229,121	164,329
Interest cost	259,884	265,598
Ammendments	630,379	
Actuarial (gain) loss	$ (150,839)	$ 112,442
Net cost for the year	968,545	542,369
Benefits for the year	(97,653)	(93,689)
Defined benefit obligation, end of year	$ 6,030,689	$ 5,159,797

The following table reconciles the unamortized net actuarial (gain) loss at the end of the year:

For the year ended August 31	2012	2011
Unamortized net actuarial loss, beginning of year	$ 112,442	$ -
Actuarial (gain) loss arising during the year	(150,839)	112,442
Unamortized net actuarial (gain) loss, end of year	$ (38,397)	$ 112,442

The following table reconciles the accrued benefit obligation of the benefit plan to the accrued benefit liability recorded in the financial statements:

As at	August 31, 2012	August 31, 2011	September 1, 2010
Defined benefit obligation	$ 6,030,689	$ 5,159,797	$ 4,711,117
Severances payable	-	-	22,650
Special termination benefits	36,127	289,015	-
Unamortized past service costs	(330,176)	-	-
Unamortized net actuarial gain (loss)	38,397	(112,442)	-
Defined benefit liability	$ 5,775,037	$ 5,336,370	$ 4,733,767

Notes to the Financial Statements

11. Employee Benefits continued...

c) Other Benefits continued...

The last actuarial valuation was performed as at August 31, 2012. BWBC intends to have its next valuation performed as at August 31, 2013. The accrued benefit liability is reported on the Statement of financial position as: Employee Benefits.

The following table shows the elements of defined benefits cost recognized during the year:

Elements of defined benefit costs recognized in the year				
Current service costs	$	**229,121**	$	164,329
Interest cost		**259,884**		265,598
Elements of employee future benefit costs before adjustments to recognize the long-term nature of employee future benefit costs		**489,005**		429,927
Amortization of past service costs		**300,203**		-
Defined benefit costs recognized	$	**789,208**	$	429,927

Assumptions

As at	August 31, 2012	August 31, 2011	September 1, 2010
Weighted average assumptions as at August 31:			
Discount Rate, accrued benefit obligation	**4.10%**	5.25%	5.50%
Discount Rate, benefit cost *	**4.60%**	5.50%	6.75%
Estimated per capita claims costs escalation rates:			
General inflation	**2.50%**	2.50%	2.7% per annum
Dental and vision care	**4.50%**	3.50%	3.7% per annum
Employee assistance program	**2.50%**	2.50%	2.7% per annum

*The discount rate, benefit cost is a blended rate to reflect that the discount rate was 5.25% from September 1, 2011 to February 29, 2012 and 4.50% from March 1, 2012 to August 31, 2012.

The assumed health care inflation rate as of August 31, 2012 is 8.0% per annum decreasing linearly to 4.50% per annum in the 2022/2023 fiscal year, (August 31, 2011 - 8% for the next 7 years, 5.5% thereafter, September 1, 2010 – 8% for the next 8 years, 6% thereafter).

Expected benefits to be paid regarding the post-employment benefit plans for the year end August 31, 2013 are $105,887.

Sensitivity Analysis

A one-percentage-point change in assumed health care cost trend rates would have the following effects:

Notes to the Financial Statements

11. Employee Benefits continued...

c) Other Benefits continued...

As at August 31, 2012:	One Percent	
	Increase	Decrease
Total of service and interest cost	$ 125,647	$ (97,274)
Defined benefit obligation	1,290,386	(1,000,085)

As at August 31, 2011:	One Percent	
	Increase	Decrease
Total of service and interest cost	$ 104,436	$ (79,395)
Defined benefit obligation	1,061,228	(833,113)

As at September 1, 2010:	One Percent	
	Increase	Decrease
Total of service and interest cost	$ 102,165	$ (78,187)
Defined benefit obligation	915,323	(722,699)

12. Non-Current Debt

BWBC must obtain authorization from the Government to negotiate any borrowings. As at August 31, 2009 federal government approval has been provided for: (a) its existing bond issue payable; (b) borrowings of up to $15 million for short-term working capital requirements, and; (c) borrowings of an additional $15 million for the purpose of funding capital expenditures that were accelerated due to funding received as part of the Gateways and Border Crossings Fund under *Budget 2009: Canada's Economic Action Plan.*

On July 9, 2002 BWBC issued at a face value of $110 million, 6.41% Revenue Bonds, payable semi-annually, Series 2002-1, due July 9, 2027.

Principal and interest payments for the next five years and thereafter are shown as follows:

Notes to the Financial Statements

12. Non-Current Debt continued...

Year	Principal	Interest	Total
Current			
2013	$ 3,440,690	$ 5,445,487	$ 8,886,177
Non-current			
2014	3,669,326	5,216,851	8,886,177
2015	3,913,155	4,973,022	8,886,177
2016	4,173,186	4,712,991	8,886,177
2017	4,450,496	4,435,681	8,886,177
Thereafter	64,486,943	24,375,832	88,862,775
	80,693,106	43,714,377	124,407,483
	$ 84,133,796	$ 49,159,864	$ 133,293,660

BWBC maintains a covenant with the Trustee and Bondholders that so long as there is any amount payable under the Master Trust Indenture, or any Bonds outstanding or any obligations under the indenture that:

a) The principal and interest will be duly paid on the due dates.

b) Insurance will be maintained in such types and amounts in accordance with sound business practices and standards in the industry.

c) BWBC shall maintain its corporate existence pursuant to the *Blue Water Bridge Authority Act* and maintain its existence as a parent Crown Corporation under the *Financial Administration Act* subject to its right to reorganize, merge or amalgamate in accordance with the Master Trust Indenture.

d) Except for borrowings arising as a result of movements in the termination values of swap agreements and any purchase money obligations not exceeding $2 million in the aggregate at any time and BWBC shall not create, incur, assume or otherwise become liable for any additional indebtedness unless it is pursuant to a supplemental Indenture. As at August 31, 2012 BWBC has no active swap agreement.

e) The aggregate of all borrowings, subordinated debt and purchase money obligations does not exceed any limitations on the amount of borrowings outstanding imposed upon BWBC pursuant to the *Blue Water Bridge Authority Act.*

f) Toll Rate Covenant – BWBC will take all lawful measures to fix and establish toll rates and other charges so that:

The Gross Debt Service Coverage Ratio is equal to or greater than 1.25 with respect to each Fiscal Year and that the projected Debt Service Ratio is equal to or greater than 1.00 with respect to each Fiscal Year.

As at August 31, 2012, the Gross Debt Service Coverage Ratio (as defined in note 8) is 3.94 (2011 - 4.33, 2010 – 8.68) and the Debt Service Ratio is 1.20 (2011 - 1.42, 2010 – 1.74).

Notes to the Financial Statements

12. Non-Current Debt continued...

If the ratios do not meet the preceding guidelines BWBC shall take all steps permitted under the *Blue Water Bridge Authority Act* to increase toll rates as may be necessary to achieve such ratios in the next succeeding Fiscal Year.

As a result of the provisions of Section 13 of the *Blue Water Bridge Authority Act*, the Government of Canada is not liable for any borrowings by BWBC.

A discounted cash flow method, using a factored rate equal to the prevailing market rate of interest for bonds having similar terms and conditions, was used to determine the fair value of the bonds. The fair value as at August 31, 2012 is $ 104,281,408 (August 31, 2011 - $103,122,071, September 1, 2010 - $105,593,990).

The factored price used to determine the fair value of the bonds is based on the market price of the bonds multiplied by the percentage of remaining principal to the beginning principal of the bonds. The factored price at August 31, 2012 was 94.002% (August 31, 2011 – 93.747%, September 1, 2010 – 95.985%).

Financing costs of $1,298,699 related to the issuance of the bonds have been included in non-current debt. As interest expense and financing costs are recognized they increase the recorded carrying value of the related non-current debt until such time as the liability recorded is equal to the bonds' face value of $110 million, calculated based on the effective interest rate calculation.

13. Facility Rentals

BWBC has entered into contracts with thirteen customs brokers and one logistics company who rent space in the Blue Water Bridge Corporate Centre. BWBC also entered into a long-term operating lease with The Blue Water Bridge Duty Free Shop Inc. BWBC provides the building while the Duty Free Shop Inc. operates the commercial facility. BWBC receives a fixed rent per month and contingent revenues based on a percentage of sales. The total amount of contingent rent recognized during the current fiscal year was $1,328,646 (August 31, 2011 - $1,289,409).

Future minimum rentals receivable under non-cancellable operating leases as at August 31 are as follows:

	2012	2011
Within one year	1,180,466	1,062,752
After one year but not more than five years	2,717,221	2,413,801
	$ 3,897,687	$ 3,476,553

14. Currency Exchange Department

BWBC operates a currency exchange department. The department's primary activity is to convert Canadian and American dollars for travelers. The Currency Exchange department generated net income of $576,161 (2011 - $490,377).

Notes to the Financial Statements

15. Contingencies and Provisions

In the normal course of its operations, BWBC becomes involved in various legal actions. Some of these potential liabilities may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is probable, and a reasonable estimate of the obligation can be made, an estimated liability is accrued and an expense recorded in BWBC's financial statements. There are no outstanding legal actions against BWBC at year end (August 31, 2011 – none, September 1, 2010 - none).

16. Commitments

Special projects have awarded contracts as at August 31, 2012 for the purchase of Property, Plant and Equipment with an outstanding commitment of $144,089 for Property, Plant and Equipment, $0 at August 31, 2011 and $22,632,868 at September 1, 2010.

At September 1, 2010, there was also a commitment of $3,280,974 for Investment Property, $0 as at August 31, 2012 and August 31, 2011.

Maintenance and other awarded contracts have an outstanding commitment $1,145,421 at August 31, 2012, $402,261 at August 31, 2011, and $989,713 at September 1, 2010. BWBC also has a credit facility and a bond payable. See notes 9 and 12 for further information.

Outstanding Commitments	**August 31, 2012**	August 31, 2011	September 1, 2010
Within one year	442,934	240,123	26,681,347
After one year but not more than five years	846,576	162,138	222,208
	$ 1,289,510	$ 402,261	$ 26,903,555

17. Capital Management

BWBC defines its capital structure as its retained earnings. BWBC is governed by the *Financial Administration Act* and is not subject to any external capital restriction.

BWBC is not authorized to modify its financial structure without pre-approval by the Government. BWBC must obtain authorization from the Government to negotiate any borrowings. BWBC manages its capital structure and makes adjustments to it, in light of changes in economic conditions. No changes were made in the objectives, policies or processes during the years ended August 31, 2012 and August 31, 2011.

18. Financial Instruments

a) Financial Risk Management

i) Credit risk:

Credit risk is the risk of financial loss to BWBC associated with the counterparty's failure to fulfill its financial obligations and arises principally from BWBC's trade and other receivables and its investments in money market funds. BWBC is subject to credit risk on cash, investments and trade and other receivables. BWBC manages this risk by closely monitoring the issuance and collection of credit to commercial clients. Generally, the carrying amount reported on BWBC's statement of financial position for its financial assets

Notes to the Financial Statements

18. Financial Instruments continued...

a) Financial Risk Management continued...

i) Credit risk continued...

exposed to credit risk represents the maximum amount exposed to credit risk. The credit risk is not significant for BWBC.

The credit risk associated with cash and current instruments is reduced substantially by ensuring that cash surpluses are invested in highly liquid investments. It is BWBC's policy to invest in low-risk instruments owned by the Government of Canada, a Canadian province or one of five major Canadian chartered banks. These financial assets are invested in guaranteed investment certificates or government bonds. Management believes the risk of loss is remote.

The credit risk associated with trade and other receivables is minimized since a large portion of the amount is owed by provincial or federal government agencies, the state of Michigan and our commercial tenants.

BWBC is subject to credit risk on the value of its trade and other receivables $421,955 at August 31, 2012, $2,247,859 at August 31, 2011 and $1,514,750 at September 1, 2010. BWBC is also subject to credit risk in the value of its investments and restricted assets $6,985,635 at August 31, 2012, $7,816,105at August 31, 2011 and $16,421,387 at September 1, 2010. BWBC has determined that the risk is not significant. The maturity analysis for trade and other receivables as at August 31, 2012 are:

	Trade and other receivables at August 31, 2012	Less than 3 months	3 to 6 Months	6 months to 1 year	Greater than 1 year
HST Recoverable	65,780	65,780			
Rental Properties	248,081	235,975			12,106
Trucking Accounts	8,334	4,760			3,574
Other	99,760	46,554	7,522	113	45,571
	421,955	353,069	7,522	113	61,251

The BWBC trade and other receivables as at August 31, 2011 are:

	Trade and other receivables at August 31, 2011	Less than 3 months	3 to 6 Months	6 months to 1 year	Greater than 1 year
HST Recoverable	21,617	21,617			
Rental Properties	235,857	226,995			8,862
Trucking Accounts	16,791	16,791			
Receivable from Transport Canada	1,665,647	1,665,647			
Other	307,947	300,165	4,250	2,963	569
	2,247,859	2,231,215	4,250	2,963	9,431

Notes to the Financial Statements

18. Financial Instruments continued...

a) Financial Risk Management continued...

i) Credit risk continued...

The BWBC trade and other receivables as at September 1, 2010 are:

	Trade and other receivables at September 1, 2010	Less than 3 months	3 to 6 Months	6 months to 1 year	Greater than 1 year
HST Recoverable	9,944	9,944			
Rental Properties	235,092	228,107	132	437	6,416
Trucking Accounts	9,807	9,807			
Receivable from Transport Canada	1,219,235	1,219,235			
Other	40,672	40,672			
	1,514,750	1,507,765	132	437	6,416

ii) Liquidity/Solvency Risk

Liquidity/Solvency risk is the risk that funds will not be available to BWBC to honour its cash obligations as they arise.

The BWBC liabilities as at August 31, 2012 are:

	Carrying Amount of Liability at August 31, 2012	Less than 3 months	3 to 6 Months	6 months to 1 year	Greater than 1 year
Trade and other payables	1,063,208	1,063,208			
Accrued Charges	1,834,292	1,834,292			
Accrued Bond Interest Payable	808,201	808,201			
Accrued Salaries and Benefits	314,418	314,418			
Construction Holdbacks	118,990	118,990			
Bank Loans Payable	14,594,766	95,383	96,014	198,809	14,204,560
Bond Debt	84,133,796		1,692,677	1,748,013	80,693,106
	102,867,671	4,234,492	1,788,691	1,946,822	94,897,666

Notes to the Financial Statements

18. Financial Instruments continued...

a) Financial Risk Management continued...

ii) Liquidity/Solvency Risk continued...

The BWBC liabilities as at August 31, 2011 are:

	Carrying Amount of Liability at August 31, 2011	Less than 3 months	3 to 6 Months	6 months to 1 year	Greater than 1 year
Trade and other payables	1,070,078	1,070,078			
Accrued Charges	791,777	791,777			
Accrued Bond Interest Payable	813,445	813,445			
Accrued Salaries and Benefits	184,294	184,294			
Construction Holdbacks	992,116	992,116			
Bank Loans Payable	14,970,157	91,583	92,680	191,128	14,594,766
Bond Debt	87,360,097		1,587,207	1,639,094	84,133,796
	106,181,964	**3,943,293**	**1,679,887**	**1,830,222**	**98,728,562**

The BWBC liabilities as at September 1, 2010 are:

	Carrying Amount of Liability at September 1, 2010	Less than 3 months	3 to 6 Months	6 months to 1 year	Greater than 1 year
Trade and other payables	741,610	741,610			
Accrued Charges	4,364,501	4,364,501			
Accrued Bond Interest Payable	841,960	841,960			
Accrued Salaries and Benefits	425,742	425,742			
Construction Holdbacks	4,394,015	4,394,015			
Bond Debt	90,385,368		1,488,308	1,536,962	87,360,098
	101,153,196	**10,767,828**	**1,488,308**	**1,536,962**	**87,360,098**

BWBC is responsible for the retirement of $110 million, 6.41% Bonds, due July 9, 2027. Bond covenants are in place to ensure adequate liquidity over the duration of the bond issue. During this period of time, in the event temporary operating cash deficiencies occur, resulting from the timing of capital expenditure payments, a $15 million line of credit is in place. BWBC's borrowing may not exceed $125 million. As per the Minister of Finance's approval of the borrowing plan, this line of credit is not to be used to cover cash shortages resulting from operating losses. Due to the requirement to finance the federal infrastructure program coupled with the current decline in traffic volumes, BWBC was granted permission by the Minister of Finance to put into place another credit facility for $15 million on a fixed rate, non-current basis with periodic payments of interest and principal not to exceed a maturity of 25 years (note 9).

It is possible that future financial results and required federal infrastructure priorities may impinge or strain our ability to satisfy existing bond covenants and require the utilization of

Notes to the Financial Statements

18. Financial Instruments continued...

a) Financial Risk Management continued...

ii) Liquidity/Solvency Risk continued...

the existing line of credit or the utilization of additional non-current debt. However, BWBC manages this risk by maintaining detailed cash forecasts, as well as non-current operating and strategic plans. The management of liquidity requires a constant monitoring of expected cash inflows and outflows which is achieved through a forecast of BWBC's liquidity position, to ensure adequacy and efficient use of cash resources. In the event that future cash deficiencies are identified, BWBC has the authority through the *Blue Water Bridge Authority Act* (Canada) to fix and charge tolls based on a pre-set formula; negotiate with a chartered bank, and; coordinate financial remediation solutions with Transport Canada.

In 2012, Standard and Poor's rated BWBC's bond at "XX".

iii) Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument of its issuer, or factors affecting all similar financial instruments traded in the market.

a) Interest rate risk

A variation in interest rates would not significantly affect investment income and would not have a significant effect on the financial statements as all investments are held to maturity. A variation in interest rates which changes fair value by 1% would have an insignificant effect on the fair value of the investments (2011 – insignificant). The method used to determine the sensitivity analysis for the interest rate risk is to take the interest rate on each non-fixed rate investment and calculate a one per cent variation.

b) Foreign exchange risk

A variation in exchange rates from year-to-year would significantly affect toll revenue income. The strengthening of the Canadian dollar over the duration of fiscal year 2012 produced a decrease in toll revenue income of $156,002 (2011 - $228,311 decrease in income). For BWBC's USD cash holdings (Note 4) a one per cent change in exchange rate would produce $58,074 gain or loss (2011 - $21,123). The method used to determine the foreign exchange risk is to take BWBC's foreign holdings and calculate a one per cent variation.

b) Fair Value

The carrying amounts of BWBC's cash, trade and other receivables, trade and other payables, holdbacks payable and other liabilities approximate their fair values due to their short term maturity.

Notes to the Financial Statements

19. Related Parties

As described in note 1, BWBC is a Crown corporation and therefore is controlled by the Government of Canada. All transactions that occur with the Government of Canada are in the regular course of operations, except the rent-free space which is provided to Canada Border Services Agency. Paragraph 23 of the *Blue Water Bridge Authority Act* states that BWBC will provide and maintain at its expense suitable office, warehouse and other accommodation as the Governor in Council or any Minister designated by the Governor in Council may require. Given this requirement, BWBC provides the necessary space to Canada Border Services Agency on a rent-free basis. Since moving into the Blue Water Bridge Corporate Centre in fiscal 2011, Canada Border Services Agency's (CSBA) special investigations unit, a related party, has been provided space free of charge. In fiscal 2011, CBSA's special investigations unit rented additional space from BWBC in the amount of $22,570. CBSA reimbursed BWBC in the amount of $40,815 (August 31, 2011 - $394,832) for leasehold improvements. Canadian Food Inspection Agency (CFIA), a related party, has also been provided space free of charge. CFIA did not reimburse BWBC for any changes in Fiscal 2012 (August 31, 2011 - $127,558).

Canada Revenue Agency, a related party, received payments for Harmonized Sales Tax from BWBC for fiscal 2012 in the amount of $222,030 (August 31, 2011 – $263,889).

The federal government, a related party, announced funding for BWBC through the Economic Action Plan initiative. BWBC received funding for infrastructure projects from the federal government which reimbursed BWBC 50% of the costs for the infrastructure projects up to $10 million (for total spending of $20 million). The initiative was completed in March 2011. For the year ended August 31, 2012, all cash received was included in trade and other receivables at August 31, 2011. No amount was included in trade and other receivables at August 31, 2012 (August 31, 2011 - $1,665,649, September 1, 2010 - $1,219,234).

a) Compensation of Key Management Personnel

	2012	2011
Short-term employee benefits	535,265	550,852
Post-employment pension and medical benefits	61,537	79,899
Other long-term benefits	11,049	10,382
Termination benefits	-	289,015
Total compensation paid to key management personnel	$ 607,851	$ 930,148

Key management of BWBC includes the Board of Directors, as well as the Executive Management Team. The amounts disclosed in the table are the amounts recognized as an expense during the reporting period related to key management personnel.

b) Post-employment benefit plan

Transactions with BWBC's post-employment benefit plan are conducted in the normal course of business. The transactions with BWBC's benefit plans consist of payments as determined by actuarial valuations, as disclosed in note 11.

Notes to the Financial Statements

20. Expenses

For the year ended August 31		2012		2011
Human Resources				
Salaries and wages				
Toll collectors	$	**1,376,078**	$	1,304,664
Administrative and office		**1,063,503**		1,027,558
Maintenance		**593,940**		568,955
Currency Exchange Department		**408,829**		333,023
Janitorial		**400,290**		390,342
Summer Students		**188,293**		137,421
Project Management		**173,584**		216,734
		4,204,517		3,978,697
Benefits				
Health insurance	$	**1,216,970**	$	692,439
Employee pension		**359,003**		329,591
Employee health taxes		**86,025**		74,440
Employment insurance		**69,007**		60,983
Workplace Safety and Insurance Board		**45,450**		33,316
Critical illness		**33,185**		20,231
Other		**10,653**		12,429
		1,820,293		1,223,429
	$	**6,024,810**	$	5,202,126
General and Administrative				
Insurance	$	**414,365**	$	373,186
Municipal Taxes		**234,790**		315,346
Computer services and supplies		**132,834**		126,927
Stationary		**125,192**		90,317
Accounting and Internal Audit		**117,267**		109,071
Bond fees		**110,173**		109,759
Legal		**93,280**		71,441
Conferences, seminars and training		**89,520**		32,418
Consultants		**72,925**		554,470
Bank charges		**71,104**		63,479
Public relations and advertising		**61,515**		81,288
Telephone		**59,789**		67,189
Uniforms		**46,621**		33,685
Travel		**42,277**		69,012
Office and miscellaneous		**36,136**		53,657
Shipping and handling		**27,226**		32,894
Meetings		**26,805**		33,454
Entertainment		**12,821**		38,306
Memberships		**7,133**		7,930
	$	**1,781,773**	$	2,263,829
Maintenance and Other Expenses				
Bridge maintenance and inspections	$	**842,277**	$	318,388
Utilities		**658,693**		530,718
Landscaping		**270,153**		228,974
Shop supplies		**154,741**		102,676
Buildings and booths		**100,331**		202,939
Janitorial		**81,847**		80,365
Fuel and vehicle costs		**59,370**		64,247
Snow removal		**30,007**		50,042
Waste disposal (recovery)		**29,981**		(20,837)
Equipment		**25,487**		29,183
Other		**14,196**		36,329
	$	**2,267,083**	$	1,623,024
Contribution to MDOT				
CBP Booths	$	**1,700,000**	$	-

Notes to the Financial Statements

21. Explanation of Transition to IFRS

The opening IFRS Statement of Financial Position as at September 1, 2010 has been prepared in accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards.

The effect of BWBC's transition to IFRS, described in note 2, is summarized in this note as follows:

i) Transition elections;

ii) Reconciliation of equity and comprehensive income as previously reported under Canadian GAAP (CGAAP) to IFRS; and

iii) Adjustments to the Statement of Cash Flows.

i) Transition elections

BWBC has applied the following transition exceptions and exemptions to full retrospective application of IFRS:

	As described in note 21(ii)
Deemed cost of property, plant and equipment	a)
Employee benefits – treatment of actuarial gains and losses	b)
Capitalization of borrowing costs	c)

BWBC has elected to take an IFRS transition exemption related to Employee Benefits, which allows BWBC to disclose the present value of the defined benefit obligation, the fair value of the plan assets and the surplus or deficit in the plan and the experience adjustments prospectively from September 1st, 2010, rather than for the previous four annual periods.

Notes to the Financial Statements

21. Explanation of Transition to IFRS continued...

ii) Reconciliation of equity and comprehensive income as previously reported under CGAAP to IFRS

Reconciliation of equity at September 1, 2010 (date of transition to IFRS)

	Note 21.ii)	CGAAP	Effect of transition to IFRS	IFRS
Assets				
Current				
Cash		$ 13,960,797	$ -	$ 13,960,797
Investments		7,920,167	-	7,920,167
Trade and other receivables		1,514,750	-	1,514,750
Prepaid expenses		318,940	-	318,940
		23,714,654	-	23,714,654
Non-current				
Investments		3,340,906	-	3,340,906
Property, plant and equipment	f	161,801,357	40,815,452	202,616,809
Intangible assets		368,292	-	368,292
Investment property	a,d	-	15,024,543	15,024,543
Restricted assets				
Debt service reserve fund		3,470,933	-	3,470,933
Operating and maintenance contingency fund		1,689,381	-	1,689,381
		5,160,314	-	5,160,314
Total assets		$ 194,385,523	$ 55,839,995	$ 250,225,518
Liabilities				
Current				
Trade and other payables		$ 6,373,813	$ -	$ 6,373,813
Holdbacks payable		4,394,015	-	4,394,015
Deferred revenue		1,524,167	-	1,524,167
Current portion of long-term debt	e	3,088,832	(63,562)	3,025,270
		15,380,827	(63,562)	15,317,265
Non-current				
Employee benefits	b	4,140,415	593,352	4,733,767
Bonds payable	e	88,113,405	(753,307)	87,360,098
		107,634,647	(223,517)	107,411,130
Equity				
Retained earnings	g	86,750,876	56,063,512	142,814,388
		$ 194,385,523	$ 55,839,995	$ 250,225,518

Notes to the Financial Statements

21. Explanation of Transition to IFRS continued...

ii) Reconciliation of equity and comprehensive income as previously reported under CGAAP to IFRS continued...

Reconciliation of equity at August 31, 2011:

	Note 21.ii)	CGAAP	Effect of transition to IFRS	IFRS
Assets				
Current				
Cash		$ 7,987,690	$ -	$ 7,987,690
Investments		1,069,906	-	1,069,906
Trade and other receivables		2,247,859	-	2,247,859
Prepaid expenses		373,439	-	373,439
		11,678,894	-	11,678,894
Non-current				
Investments		1,117,387	-	1,117,387
Property, plant and equipment	f	181,480,466	37,447,246	218,927,712
Intangible assets		269,578	-	269,578
Investment property	a,d	-	16,874,212	16,874,212
Restricted assets				
Debt service reserve fund		3,405,935	-	3,405,935
Operating and maintenance contingency fund		2,222,877	-	2,222,877
		5,628,812	-	5,628,812
Total assets		$ 200,175,137	$ 54,321,458	$ 254,496,595
Liabilities				
Current				
Trade and other payables	e	$ 2,850,345	$ 9,249	$ 2,859,594
Holdbacks payable		992,116	-	992,116
Deferred revenue		1,642,495	-	1,642,495
Current portion of bank loan payable		375,391	-	375,391
Current portion of bonds payable	e	3,289,999	(63,698)	3,226,301
		9,150,346	(54,449)	9,095,897
Non-current				
Employee benefits	b	4,751,588	584,782	5,336,370
Bank loan payable		14,594,766	-	14,594,766
Bonds payable	e	84,823,406	(689,610)	84,133,796
		104,169,760	(104,828)	104,064,932
		113,320,106	(159,277)	113,160,829
Equity				
Retained earnings	g	86,855,031	54,480,735	141,335,766
		$ 200,175,137	$ 54,321,458	$ 254,496,595

Notes to the Financial Statements

21. Explanation of Transition to IFRS continued...

ii) Reconciliation of equity and comprehensive income as previously reported under CGAAP to IFRS continued...

Reconciliation of comprehensive income for the year ended August 31, 2011:

	Note 21.ii)	CGAAP	Effect of transistion to IFRS	IFRS
Revenues				
Tolls and services		$ **16,313,008**	$ -	$ 16,313,008
Facility rentals		**2,455,481**	-	2,455,481
Currency exchange department		**1,205,663**	-	1,205,663
Interest and sundry		**419,115**	-	419,115
		20,393,267	-	20,393,267
Expenses				
Interest on long-term debt	c,e	**5,838,159**	(504,485)	5,333,674
Depreciation of property, plant and equipment	a,c	**5,263,903**	1,164,251	6,428,154
Depreciation of investment property	c,d	**0**	868,019	868,019
Human resources	b	**5,210,696**	(8,570)	5,202,126
General and administrative expense	e	**2,200,267**	63,562	2,263,829
Maintenance and other expenses		**1,623,024**	-	1,623,024
Depreciation of intangible assets		**153,063**	-	153,063
		20,289,112	1,582,777	21,871,889
Comprehensive income (loss) for the year		$ **104,155**	$ (1,582,777)	$ (1,478,622)
Retained earnings, beginning of year		$ **86,750,876**	$ 56,063,512	$ 142,814,388
Comprehensive income (loss) for the year		**104,155**	(1,582,777)	(1,478,622)
Retained earnings, end of year		$ **86,855,031**	$ 54,480,735	$ 141,335,766

a) In accordance with IFRS transitional provisions, BWBC elected to revalue by $55,839,995 certain property, plant and equipment to its fair value at September 1, 2010, of which $15,024,543 was classified as investment property in d) below. See note d) for 2011 explanation of Investment Property. An adjustment of $40,815,452 was made to property, plant, and equipment. An additional $86,396 was classified as investment property for the year ended August 31, 2011 which consists of capitalized borrowing costs, as noted in c) and d) below. The resulting increased depreciation of property, plant and equipment of $1,164,251 is for the revaluation to fair market value and the componentization of buildings for the year ended August 31, 2011. This was included in depreciation of property, plant and equipment. An adjustment of $37,447,246 at August 31, 2011 was made after additions of

Notes to the Financial Statements

21. Explanation of Transition to IFRS continued…

ii) Reconciliation of equity and comprehensive income as previously reported under CGAAP to IFRS continued…

$2,631,292 as noted in d) below were transferred to Investment Property and borrowing costs of $427,338 were capitalized as noted in c) below.

b) In accordance with IFRS transitional provisions, BWBC elected to recognize the cumulative actuarial gains and losses and past service costs at September 1, 2010. BWBC will continue to apply the corridor method of accounting for such gains and losses arising from September 1, 2010 onward. The carrying value of the net liability for employee benefit obligations has been increased by $593,352 to recognize cumulative net actuarial gains and losses at September 1, 2010, which was reduced to $584,782 at August 31, 2011 as a result of the $8,570 amortization of unrecognized gains and losses that were recognized under CGAAP in the year.

c) Under IFRS, BWBC capitalizes all borrowing costs directly related to the acquisition and construction of a qualifying asset with the cost of that asset. In accordance with IFRS transitional provisions, BWBC has elected to not capitalize borrowing costs on qualifying assets that were incurred prior to September 1, 2010. BWBC capitalized $513,734 of borrowing costs for the year ended August 31, 2011 and $427,338 and $86,396 was included in property, plant and equipment and investment property, respectively. The qualifying asset has been completed during the year, and as a result it was depreciated. The depreciation of the borrowing costs of $6,517 and $1,080 for the year ended August 31, 2011 was included in depreciation of property, plant and equipment and depreciation of investment property, respectively.

d) Under IFRS, BWBC classifies all properties rented to third parties as investment property. Under CGAAP, BWBC accounted for these properties as property, plant and equipment. The fair value of these assets was determined in accordance with IFRS transitional provisions, as noted in a). The result is an increase to investment property of $15,024,543 at September 1, 2010 including an increase of $9,737,345 in Construction-In-Process – Investment Property. Also, an August 31, 2011 increase of $86,396 consists of capitalized borrowing costs. The resulting depreciation expense of $868,019 for the year ended August 31, 2011 was included in depreciation of investment property. Other additions of $2,631,292 were reclassified from property, plant and equipment to investment property for the year ended August 31, 2011. The resulting adjustment to the statement of financial position at August 31, 2011 of $16,874,212 is net of accumulated depreciation.

e) IFRS requires bond agency fees to be offset against the value of bonds on initial recognition. Under IFRS, BWBC has recorded the bond agency fees on the bonds payable as an offset to the debt. Under CGAAP, BWBC accounted for the bond agency fees as an expense at the date of the bond issuance. The result is a decrease in bonds payable of $816,869 at September 1, 2010 of this amount $63,562 is a current liability and $753,307 is a non-current liability. Bond agency fees of $63,562 for the year ended August 31, 2011 was included in the General and Administrative expenses. For the year ended August 31, 2011, $63,698 moved to a current liability which was expensed in the fiscal 2012 year. The decrease in bonds payable for the year ending August 31, 2011 results in an increase in bond agency fees of $9,249. This, with the borrowing costs adjustment in c), creates a decrease of $504,485 to interest expense.

Notes to the Financial Statements

21. Explanation of Transition to IFRS continued...

ii) Reconciliation of equity and comprehensive income as previously reported under CGAAP to IFRS continued...

f) The following is a summary of transition adjustments to BWBC's property, plant and equipment from CGAAP to IFRS:

	Note 21.ii)	August 31, 2011	September 1, 2010
Property, plant and equipment as reported under CGAAP		$ 181,480,466	$ 161,801,357
IFRS adjustments - increase (decrease):			
Property, plant and equipment revaluation to fair value	a	55,839,995	55,839,995
Transfer of property to investment property	a,d	(17,655,836)	(15,024,543)
Depreciation of property, plant and equipment revaluation	a	(1,164,251)	-
Capitalization of borrowing costs	c	427,338	-
Subtotal of adjustments		37,447,246	40,815,452
Property, plant and equipment as reported under IFRS		$ 218, 927,712	$ 202,616,809

g) The following is a summary of transition adjustments to BWBC's retained earnings from CGAAP to IFRS:

	Note 21.ii)	August 31, 2011	September 1, 2010
Retained earnings as reported under CGAAP		$ 86,855,031	$ 86,750,876
IFRS adjustments - increase (decrease):			
Property, plant and equipment revaluation	a	55,839,995	55,839,995
Employee benefits - actuarial gain and loss	b	(593,352)	(593,352)
Non-current debt bond transaction costs	c	816,869	816,869
Effect of transition on comprehensive income for the year		(1,582,777)	-
Subtotal of adjustments		54,480,735	56,063,512
Retained earnings as reported under IFRS		$ 141,335,766	$ 142,814,388

i) Adjustments to the statement of cash flows

The adjustments recorded on transition to IFRS were all non-cash adjustments and only impacted the non-cash portions of the Statement of Cash Flows, adjusted as a result of the transition differences noted in ii) above. There are no other material differences between the Statement of Cash Flows under IFRS and the Statement of Cash Flows under Canadian GAAP.

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